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STATE OF WISCONSIN

REPORT

OF THE

Joint Committee of Senate
and Assembly

Affairs of Life Insurance Companies



MADISON, WIS.
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REPORT OF THE JOINT COMMITTEE OF SENATE
AND ASSEMBLY OF THE STATE OF WISCON-
SIN, APPOINTED TO INVESTIGATE
THE AFFAIRS OF THE LIFE
INSURANCE COMPANIES.

To Hon. James O. DAVIDSON, Governor:—

The joint committee of the senate and assembly, appointed pursuant to the action of the legislature, to investigate life insurance corporations in the state, have had under consideration the matters covered by such legislative acts, and submit the following report:

For several years past the daily press and the magazines of this country contained startling accusations of the corrupt and extravagant management of the large life insurance companies of this country. These accusations became so specific and assumed such form that in July, 1905, the legislature of New York appointed a joint committee to investigate and examine into the affairs of the life insurance companies doing business in that state.

The New York committee organized August 1, 1905, held many sessions at which testimony was taken and exposed scandals which shattered reputations and shocked the moral sense of the nation.

At the special session of the legislature of Wisconsin, held during the year 1905, Hon. Robert M. La Follette, then governor of the state, submitted to the legislature a message, in which, among other things, he said:

“With the exception of the corporations which control the transportation facilities of the commonwealth there is no class of corporations more in need of careful and economical administration than those which make a business of life insurance. It is the business which gathers the savings of youth and ma-

ture manhood, to safe-guard old age against poverty; to provide sustenance and shelter and the comforts of home for the widow and orphan. . . . It is a shocking disclosure of the demoralized business integrity of the country when the admissions of the highest officials, entrusted with the savings which the people have invested in life insurance and charged with the management of these funds, show habitual violation of their trust to enrich themselves at the expense of the policy holders. It ought not to be necessary to say that no official, agent or employee of any insurance company should be personally interested in the purchase or sale of any securities of that company, or have any personal or pecuniary interest in the making of loans of the funds of the company. The disclosures of the investigation of the New York Investigating Committee have demonstrated that the policy holders of three of the largest of the companies of the country have been systematically plundered by the operations of the officers of these companies. They have not only voted to themselves salaries out of all proportion to the services rendered, but this investigation establishes the personal financial interest of officers in the sale of securities to the companies; in the sale of securities by the companies; in the use of insurance funds for promoting industrial enterprises; in the loans of the funds of the companies; in the commissions paid for new business; in contracts for supplies; in the rental of companies' properties and in the payment of the money of the policy holders as contributions to campaign funds and as salaries to legislative representatives. . . . It must be borne in mind that all the irregularities which have been brought to light by the three investigations, were revealed as the result of a quarrel between two men high in authority in the Equitable Life Assurance Society, and it is probable that had those two officials not disagreed, this reckless disregard of trust obligations would have continued and grown in magnitude. . . . It seems to me that it is due to our home companies, their policy holders and the people of the state, that Wisconsin take such action as shall make impossible a repetition in this state of what has occurred in New York, and, at the same time, satisfy the people as to the condition of Wisconsin companies. . . . The subjects of insurance legislation and expenditures of public service corporations open up

such a wide field, and there is such need of thorough investigation, that I recommend that a committee, with power to summon witnesses, examine books, and with all power necessary to investigate expenditures and methods of doing business, be appointed and instructed to make a complete report to the governor, who shall transmit the same to the legislature at its next session with any recommendations he may make thereon."

In response to such executive recommendation Joint Resolution No. 3, S., and Bill No. 14, A., to provide for a joint committee of the legislature to investigate life insurance companies in this state, were duly enacted. These enactments expressly provide that the committee appointed in pursuance thereof is directed to investigate and examine into the expenditures of life insurance corporations in this state, in all matters including their expenditures incurred:

- (a) In the employment of legislative and municipal lobbies;
- (b) In making contributions to candidates, committees or others, to be used for political or campaign purposes;
- (c) In paying wages, salaries and expenses of officers, agents, attorneys and employees

Also to examine into and investigate:

- (a) The methods employed by such insurance corporations in securing business and in paying commissions and other compensation to agents, officers and employees.
- (b) To examine into and investigate the nature and condition of their investments; methods of making such investments, and the manner in which the funds, securities and assets are safeguarded.

It is further expressly provided that "The mention of any particular lines of inquiry herein, shall not limit in any measure the field of investigation which said committee is empowered to enter."

ORGANIZATION OF COMMITTEE.

The undersigned, who were appointed as such committee, duly organized on the 15th of January, 1906, by the election of Senator James A. Frear as chairman thereof, Assemblyman Herman L. Ekern as secretary, Lewis A. Anderson as actuary and assistant

secretary, and later employed James L. O'Connor as counsel, and Miles M. Dawson of New York, Henry S. Vail of Chicago, and Prof. James W. Glover of the University of Michigan, as actuaries. William J. Buckley was appointed as official stenographer.

THE COMPANIES EXAMINED

The committee confined its general examination to three companies, two of which were organized under the laws of the state of Wisconsin and one under the laws of the state of Ohio, to wit: The Wisconsin Life Insurance Company of Madison, The Northwestern Mutual Life Insurance Company of Milwaukee, and the Union Central Life Insurance Company of Cincinnati, Ohio.

It is only just to the companies selected for examination to state at the outset that they were not selected because of any general belief on the part of the public, or of any belief on the part of this committee that their affairs were conducted in any less creditable manner than those of other companies transacting life insurance business in this state. The Northwestern Mutual Life Insurance Company had courted this investigation, and the Union Central was selected for examination because it is recognized as a conservative mutual and stock company and had not been examined by the New York investigating committee, and has a large number of policy holders in this state.

It is also just to these companies examined to say at this point,

First. That we found no evidence that any of said companies since their organization, has made any contribution from the company's funds, to any campaign committee, or any one representing a campaign committee, or given aid in the election or defeat of any candidate for public office. The nearest approach to participation in political affairs is found in the fact that the Northwestern Life Insurance Company occasionally circularized its policy holders in connection with legislation pending, or proposed, which it was believed by officers of the said company would injuriously affect the interests of its said policy holders.

Second. There is no evidence that any of said companies has engaged, directly or indirectly, in any syndicate operations, or that any officer of said companies has had any interest in any such syndicate operations.

Third. There is no evidence that any of said companies, or any officer thereof, has ever had any interest in the flotation of securities, and we find there has been no investment of the company's funds, except in income bearing securities and real estate, all properly listed in the assets of the companies, as provided in their charters and the laws of the state.

Fourth. We have found no evidence of any misappropriation of these companies' funds or manipulation of the business of these companies for personal gain, except as it may be inferred from facts hereinafter specifically set forth.

We have not confined our investigation to the particular lines of inquiry specified in the act of appointment, but have, as far as our limited time would permit, examined into the internal management of the companies under investigation; their methods of electing trustees; their forms of application and policy contracts; loan agreements; settlement of death claims; forfeiture and surrender of policies, and gathered a large quantity of data bearing upon life insurance as an economic and social institution, and pursued lines of investigation into all matters having a direct bearing upon the cost of insurance and management of companies and their treatment of policy holders. With respect to some of these matters enumerated we have found much that is subject to criticism, and calls for efficient, comprehensive, conservative, remedial legislation.

The committee held sixty public sessions during which witnesses were examined and documentary evidence offered. We prepared schedules of questions for practically all the companies transacting business in this state, and by their returned answers thereto, gathered a vast amount of information relating to life insurance business which has been used in the preparation of this report. We held one open session to which were invited all of the general agents of the Northwestern Mutual, then assembled in Milwaukee, and the general agents of all other companies transacting business in this state. At this session these general agents participated in a discussion of the subject of rebating, and offered suggestions as to legislation by which this evil might be minimized or abolished. The committee also held one open session to which the officers of all fraternal societies doing business in the state were invited. Practically all these societies appeared by representatives, and with Hon. Zeno M. Host, commissioner

of insurance, participated in a discussion of the condition of fraternal insurance, and submitted suggestions for its improvement.

A complete digest of the testimony taken cannot be incorporated in this report. Our report must, of necessity, be largely conclusions of fact based upon the salient features of the evidence taken.

NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY.

The Northwestern Mutual Life Insurance Company was organized as a purely mutual company by special act of the legislature in the year 1857. It began the transaction of business in the year 1858.

The management of this company is vested in a board of thirty-six trustees, and such committees and officers as the trustees may appoint or delegate. The charter expressly provides for the election of these trustees by the policy holders. One-fourth of the trustees are elected at each annual meeting in July. The trustees have delegated certain powers to committees created and known as the "Executive Committee," the "Finance Committee," and the "Committee on Insurance and Agencies."

EXECUTIVE COMMITTEE.

The executive committee consists of ten members, and possesses, when the board of trustees is not in session, the full powers of said board.

FINANCE COMMITTEE.

The finance committee consists of seven members, and is charged with the duty of investing and managing the assets of the company.

A complete record of all transactions of the executive and finance committees is kept, and such records are submitted in detail to the full board of trustees at each quarterly and annual meeting, but the testimony shows that such detailed report is seldom, if ever, examined by the full board of trustees.

The finance committee is authorized by the by-laws to appoint annually a committee to be known as the "bond committee," consisting of the president, vice president, and such other officer or

member of the board of trustees as the finance committee shall determine.

The bond committee has power to contract for the purchase or sale by the company of such bonds as the company is authorized by law to purchase, subject to such directions as may be given by the finance committee from time to time.

The by-laws further provide for a real estate committee, which shall consist of at least three members, two of whom shall be members of the finance committee, and one the auditor of the company. This committee is appointed annually and has charge of the sale and renting of real estate acquired under foreclosure and the care of such real estate.

COMMITTEE ON INSURANCE AND AGENCIES.

This committee consists of the president, vice president, second vice president, secretary, actuary and superintendent of agencies. It has general charge of the insurance branch of the company's business, and also of the employment and compensation of agents.

The by-laws provide that the trustees shall receive actual traveling and hotel expenses, and twenty-five (25) dollars a day for attendance upon the quarterly meetings of the board, but only when actually present at such meetings.

EXECUTIVE OFFICERS OF THE COMPANY.

The executive officers of the company consist of the president, first vice president, second vice president, third vice president, secretary, actuary, medical director, general counsel and superintendent of agencies. The duties of each one of these executive officers are specifically defined by the by-laws.

SALARIES.

The board of trustees, upon the recommendation of the committee of said trustees, fixes and determines the salaries of the executive officers, and of all persons employed in any subordinate position in connection with the home office.

The salaries paid to the executive officers, as fixed at the annual meeting of July, 1905, are as follows:—

President	\$25,000
First vice president.....	18,000
Second vice president.....	15,000
Third vice president.....	12,000
Counsel	15,000
Secretary	10,000
Actuary	12,000
Medical director	12,000
Superintendent of agencies.....	12,000

MEMBERSHIP IN COMPANIES.

Section 4, of the company's charter, makes all persons insured with the corporation, their heirs, executors and administrators, members thereof, during the period they shall remain insured by the corporation and no longer.

QUALIFICATIONS OF TRUSTEES.

Section 20, provides that no person shall be eligible to the office of trustee unless he shall have effected an insurance upon his own life, for the benefit of himself, his wife, heirs or representatives, of at least five thousand (5,000) dollars, which shall be in full force and effect, and on which he shall have paid the premium for at least one year. It also provides that every trustee of the company shall, during his term of office, be a citizen of the United States, and at least two-thirds of all such trustees shall have resided in this state for at least one year next preceding their election, and be residents of the same during their continuance in office.

QUALIFICATION OF VOTERS.

Section 20 of the charter also provides that to entitle a member of the company to a vote for trustees, he shall have effected an insurance of at least one thousand (1,000) dollars upon his own life, or the life of another for his benefit, or the benefit of his wife, heirs, etc.

Section 21 provides that members of said company may vote by proxy, dated and executed within sixty days next preceding and returned to the chief office of the company for examination and registry on the books of the company at least three days previous to the meeting at which the same is to be used.

That no person shall be allowed to cast by proxy more than one hundred (100) votes, in addition to the votes to which he may be entitled as a member of the company on his own insurance.

This section also provides that "*No officer, trustee, agent or employee of said company shall act or be entitled to vote as proxy for an absent member.*"

The above language of section 21, in italics, was an amendment to section 21, adopted during the year 1882. It appears that shortly prior to that year, the superintendent of agencies gathered a large number of proxies for himself and his friends, with the view of controlling the election and ousting the then management of the company. Following this attempt, the above amendment was proposed by the officers of the company, and, in the language of the then president of the company "Was intended to prevent the men in charge of the agents, and through the agents, manipulating unfairly, the votes of the policy holders. (Test. p 9.)

PROXIES, VOTERS, HOW SELECTED.

The names of proxy holders friendly to the existing management, residing in the city of Milwaukee, are selected by the officers and employees of the company. (Test. pp 12, 20, 25, 27.) These proxy holders, so selected, are chosen, irrespective of whether or not they are policy holders in the company. This practice results in having proxies executed in large numbers to persons who are not policy holders and who have no interest in the management of the company. One hundred such proxies are prepared, under the direction of the officers and trustees, for each one of these proxy holders thus selected, and are sent to the general agents, and by them distributed through the local field to secure the execution thereof, and return them to the home office. (pp 15, 16.)

On the back of these proxies are printed instructions and information to the policy holders. Such instructions and informa-

tion contain the misleading statement that "It is the duty of the officers to select proxy holders, resident citizens of the city of Milwaukee." These proxies are gathered by the agents in the field, forwarded by them to the general agents, and, by the general agents, sent to the home office. Under this practice it appears that at the annual election in 1901 there were 30,013 proxy votes cast by residents of Milwaukee. 15,887 votes were cast by persons who were not policy holders as against 3,510 votes cast by policy holders casting their own votes, and 14,126 votes cast upon proxies held by them. (pp 139-153, 1418.)

It was admitted by the officers of this company, that under this proxy system, trustees seeking an election could secure proxies for men whom they knew to be friendly to them in sufficient numbers to control the election, if they so desired. And that the practice always resulted in having proxies executed to the persons named by the officers.

It will be observed:—

First: That the charter of this company prohibits any person from holding the office of trustee unless he holds insurance in the amount of at least five thousand (5,000) dollars, which shall be in full force and effect and on which he shall have paid the premium for at least one year.

Second: That under the charter no policy holder is authorized to vote for trustees unless he holds insurance of at least one thousand (1,000) dollars upon his life, or the life of another for his benefit, or for the benefit of his wife, heirs, etc.

The plain purpose of these charter provisions is:—

(a) To prohibit any person being elected to the office of trustee who did not have a large continuing interest in the welfare of the company; and

(b) To prevent any person from casting a vote for such trustee unless he had an interest in the company through the holding of a policy of at least one thousand (1,000) dollars.

It was the evident intention of the legislature to place the election of trustees in the hands of policy holders whose personal interest in the management of the company should be measured by a policy of insurance of at least one thousand dollars. It would seem that this charter provision, which prohibits a member of the company with a policy of less than one thousand dollars from participating in the election of trustees, should

have been an efficient suggestion of the impropriety of selecting men with absolutely no interest in the company to cast at a single election over fifteen thousand (15,000) votes for trustees of the company. In the face of such charter provision, the conduct of the officers in placing over fifteen thousand votes in the hands of men who have no insurance and no interest in the company is indefensible.

NOMINATION OF TRUSTEES.

The trustees are nominated by a committee selected by the board of trustees, including those who are seeking re-election. This committee meets with a committee of agents, who are brought to the annual meeting at the expense of the policy holders. These two committees select a ticket and refer it back to the full board of trustees. If the nominations meet with the approval of the trustees they are approved; if not, they are disapproved, and the nominees, in the last analysis, are made by the board of trustees. A ticket is thereupon prepared by the existing management, and no qualified member of the company, offering himself as a candidate for the office of trustee, or selected and offered by any number of policy holders can have his name placed upon this ticket. Inspectors of election are appointed by the trustees. A written notice is sent to the residents of Milwaukee, who have been selected by the officers as proxy holders, and they are requested to present themselves at the home office on the date of the annual election, and vote such proxies. Those who respond to this request have placed in their hands, by the officers and employees of the company, a printed ticket of the administration, and the final act of election is consummated, resulting in the election of the trustees named by the management, each of whom generally receives exactly the same number of votes. The letter of the law is complied with, but the spirit and intent of the law is totally ignored. But very few of the policy holders vote at the annual election of officers, and the officers have never had under consideration the matter of giving them a better method of voting. (p 33.) The president of the company refused to answer as to whether he would have given a policy holder, interested in the election, a list of the policy holders. He would make no statement beyond that of say-

ing that he would have passed upon the question when request was made. (p 35.)

The officers of the company owe their positions and salaries to the trustees. The general agents owe their positions and compensation to the officers. The officers select the proxy holders, the agents collect the proxies, the trustees nominate the candidates and the proxy holders elect them. This election is designated in the company's literature as "the management of the company by the company's policy holders."

Under this system the officers and trustees of this company have the power to perpetuate themselves in office with a certainty equal to that of the officers of any stock company where the officers hold all the stock. The policy holders are scattered all over the country, unknown to one another, without the possibility of combined action, and are, as against the activity of an existing management, absolutely powerless to effect a change, either in the entire or any part of the management of the company.

The charter provides that the policy holders shall manage the company. It prohibits officers, trustees, agents or employees of the company from voting proxies for absent members. In practice, however, the officers, trustees and agents nominate the trustees and cause them to be elected. The manner in which this result is accomplished, though simple, is effective. The proxy system is so manipulated as to defeat the clear intent of the company's charter.

The trustees thus elected select the officers and fix their salaries. They employ the assistants and clerks in the home office and prescribe their compensation. They designate the members of the finance committee and determine their salaries. All members of the finance committee, except executive officers, are compensated by salaries; officers who serve on this committee receive no compensation except their official salaries. At the present time there are five members of this committee who are not officers. The committee meets three times per week, each session occupies from two to three hours, and each member who is not an officer draws a salary of five thousand (5,000) dollars per annum. (Test. pp 1226, 1227.)

SALARIES AND INCREASE IN SALARIES.

The executive officers of the company are, and always have been, required to give their entire time and energies to promote the interests of the company.

Henry L. Palmer, as president of the company, received \$18,000 per annum from July, 1893 to July, 1896; \$20,000 per annum from July, 1896 to July, 1898; \$25,000 per annum from July, 1898 to the present time.

The late Willard Merrill, as second vice-president and superintendent of agencies, received \$12,000 per annum from July, 1893 to July, 1898, and \$11,000 per annum from July, 1898 to July, 1903.

J. W. Skinner, as secretary, received \$7,000 per annum in 1893; \$7,500 per annum from July, 1893 to July, 1896; \$8,000 per annum from July, 1896 to July, 1897; \$10,000 per annum from July, 1897 to July, 1903; \$12,000 per annum from July, 1903 to July, 1904, when he was elected second vice-president and is now receiving \$15,000 per annum.

The late Charles E. Dyer, as general counsel, received \$12,000 per annum from July, 1893 to July, 1898; \$17,000 per annum from July, 1898 to July, 1905, at which time his salary was raised to \$18,000 per annum.

J. W. Fisher, as assistant medical director, received \$6,000 per annum from July, 1893 to July, 1894; \$7,000 per annum from July, 1894 to July, 1897; and as medical director, \$7,500 per annum from July, 1897 to July, 1898; \$8,000 per annum from July, 1898 to July, 1901; \$9,000 per annum from July, 1901 to July, 1903; \$12,000 per annum from July, 1903 to July, 1906.

The late W. P. McLaren, as third vice-president, received \$10,000 per annum from July, 1893 to July, 1895; \$12,000 per annum from July, 1895 to January, 1898; at the rate of \$15,000 per annum from January, 1898 to July, 1898; and \$17,000 per annum from July, 1898 to July, 1903.

George C. Markham, as 2nd vice-president, received \$12,000 per annum from July, 1901 to July, 1903; \$15,000 per annum from July, 1903 to July, 1904; and as 1st vice-president, \$17,000 from July, 1904 to July, 1905, and \$18,000 per annum from July, 1905 to July, 1906.

C. A. Loveland, as actuary, received \$7,000 per annum from July, 1892 to July, 1893; from July, 1893 to July, 1897, \$9,000 per annum; from July, 1897 to July, 1903, \$10,000 per annum; from July, 1903 to July, 1906, \$12,000 per annum.

From the foregoing statements it appears the salaries of the executive officers were increased nearly 70 per cent from 1893 to 1906.

RELATIVES OF PRESENT AND FORMER OFFICERS IN THE EMPLOY OF
THE COMPANY.

C. H. Palmer, a son of President Palmer, occupies a position as clerk in the home office. In 1897 he received a salary of \$1,750; in 1906, a salary of \$3,000 per annum.

Thomas E. Bading, husband of a niece of President Palmer, is clerk of the executive and finance committees. In 1897 he received a salary of \$5,000, and in 1906, \$6,500 per annum.

W. R. Adams, a son-in-law of President Palmer, occupies the position of auditor of the company. In 1897 he received a salary of \$4,000 per annum and in 1906, \$6,500 per annum.

J. R. Dyer, son of the late general counsel of the company, occupies the position of assistant counsel. In 1897 he received a salary of \$4,500 and in 1906, \$9,000 per annum.

Charles Dyer Norton, nephew of the late general counsel of the company was promoted from the position of field agent to an interest in the general agency in the city of Chicago. The commissions and renewals of this agency are set forth in connection with the subject of commissions and renewals of general agents.

J. W. Fisher is the son-in-law of the former medical director, L. M. McKnight. Mr. Fisher was assistant medical director under his father-in-law, and has been medical director since July, 1897. In 1897 he received a salary of \$8,000 per annum, and in 1906 a salary of \$12,000 per annum.

George F. Markham, the son of vice-president Markham, was appointed loan agent for Wisconsin in March, 1905. The evidence shows that he had absolutely no experience or qualifications for the position. At the time of his appointment in 1905 his salary was fixed at \$1,500 per annum. In 1906 his salary was increased to \$2,500 per annum.

Mr. DuFour is a relative of second vice-president Skinner. His salary as cashier in 1897 was \$3,500 per annum; his salary in 1906 is \$4,750 per annum.

Mr. Loveland, a brother of Actuary Loveland, is employed in the home office. In 1897 he received a salary of \$1,600 and in 1906, he received a salary of \$1,800 per annum.

W. J. Farnham, a relative of Mr. DuFour, the cashier, and son of the former assistant secretary of the company, in 1897, received a salary of \$1,350; in 1906, he received a salary of \$1,600 per annum.

W. J. Holbrook, a relative of Mr. DuFour, the cashier, in 1897, received a salary of \$2,000 and in 1906, \$2,500 per annum.

We state these facts in connection with our discussion of the proxy system as practiced in this company and without further comment.

The proxy system of the Wisconsin Life Insurance Company, hereinafter specifically referred to, is even more objectionable than that of the Northwestern Mutual Life Insurance company as above described.

REMEDY PROPOSED.

It is generally believed that the life insurance business should be conducted upon the mutual plan. It is universally conceded that members of a mutual life insurance company are entitled to participate in the management of their company by the election of its trustees. The fact that many of its members reside at long distances from the place of election makes the full attainment of this right a matter of extreme difficulty. How to secure the effective exercise of the franchise by policy holders of mutual life companies is a problem which has engaged the serious attention of writers and law makers. Upon this subject much has been written and some legislation enacted.

In our judgment, no plan or system which permits of proxy votes will enable the policy holders, as against the activity of officers and agents, to control the management of a mutual company.

The recent New York insurance legislation authorizes policy holders to vote for trustees either in person, by proxy, or by mail. We believe that this system, retaining the right to vote

by proxy, so far as it was intended to enable policy holders to control the election of trustees, will prove abortive. Past experience amply justifies the prediction that, in any system where proxy voting is retained, the existing administration, through the perfect organization of their agency system, will manipulate the proxies and control the elections in the future as they have controlled them in the past. Policy holders in any company affected by complicated provisions of law will not avail themselves to any great extent of these privileges.

The method of exercising the right to participate in the election of trustees should be simple and practicable. Every policy holder, no matter where he resides, or the amount of his insurance, should have the undoubted right to cast a ballot for the election of trustees. He should feel assured that his vote will not be worthless as against the innumerable proxies placed in the hands of the proxy holders selected by the officers of the company.

To the end that the policy holders in a mutual life insurance company may have the opportunity to exercise the right to participate in the election of its trustees, we recommend:

First: That in all such companies the right to vote by proxy be abolished.

Second. That every member of the company, irrespective of the amount of insurance carried by him, shall be entitled to cast one vote for each candidate.

Third: That every member shall have the right to cast his vote, either in person or by mail.

Fourth: That at a specified time prior to the date of such election, the officers of the company shall nominate a full set of candidates for the office of trustees, make such nominations public, and be prohibited from either directly, or indirectly, participating in the nomination of any other candidate or ticket.

Fifth: That any ten or more policy holders may, by filing a petition at the home office, at a prescribed period prior to any election, place in nomination any qualified candidate or candidates for the office of trustees.

Sixth: That it shall be the duty of the officers to prepare a printed ballot in two columns, one designated as the "Administration Ticket," under which shall be arranged, in alphabetical order, the names of the nominees of the administration, and a

second column designated as the "Policy Holders' Ticket," under which shall likewise be placed, in alphabetical order, the names of candidates nominated by the policy holders.

Seventh: That, at a specified time prior to the election, there shall be mailed to every member of the company a ballot with proper instructions as to how said policy holder may express his choice; that at each such annual election, when more than one person is to be elected, each policy holder may cast votes up to the number to be elected, and may cast all such votes for one person, or may distribute them among the number to be voted for, in such numbers, as between candidates, as he shall elect, making a cross opposite the names of the candidates for whom he desires to cast one vote and placing a figure or figures in the space opposite the name of the candidate for whom he desires to cast more than one vote.

Eighth: That proper provisions be made for the return of such ballot to the home office, and for the safe-guarding of the same, until opened and counted by the inspectors.

Ninth: That all such mutual insurance companies shall publish by states and counties in the states, in alphabetical order, with post-office addresses, the names of all policy holders residing in such state, and shall furnish to any policy holder a printed list of names and addresses of such policy holders of any state, upon request of such policy holder and the payment to the company of the sum of not to exceed one dollar.

We recognize that no system can be devised to compel a full vote of policy holders. The system proposed will, however, give to each policy holder the undoubted right to express his choice in the management of the company. Experience demonstrates that action by the policy holders cannot be relied upon for their own protection. We agree with the recent commission of the state of Massachusetts who reported that,—

"Policy holders have more at stake in the faithfulness of directors than have investors in any other institution. Their position is unlike that of depositors in a bank, who are at liberty to withdraw their deposit if they lose faith in the directors. Policy holders have made contracts, the abandonment of which may mean irreparable loss. Their rights ought not to be jeopardized by the extra hazard that is involved in their

societies being managed by a board of directors that is self-perpetuating, or whose election or re-election may depend upon their subserviency to one or more men in control of the corporation. . . . If the action of policy holders numbering many thousands and distributed all over the world, could be depended upon to keep in the board of directors men who felt that their position was due to the policy holders, and not to other influence, the evils referred to would not be possible."

We believe the state, whose duty it is to protect policy holders cannot make certain that under any system of electing trustees the policy holders will be able to protect themselves. In view of this fact we consider it the plain duty of the state to enact laws which will secure to the policy holders one member of the board of trustees whose position shall be entirely independent of the controlling forces of the existing administration.

We believe that this can be accomplished to such an extent as to minimize the possibility of evils that may come from a self perpetuating board, by empowering the governor, acting for the people, to appoint one trustee upon the board of trustees of each such company organized under the laws of the state.

In an exceedingly conservative report made by the commission of Massachusetts, a similar recommendation was made, and supported by the following suggestion, to-wit:

"This state long since established the policy of protecting the peoples' interests in certain corporations, where the state or the people was largely interested, by giving to the governor the right to appoint one or more members on the board of directors of such corporations. The presence upon such boards of public spirited citizens, appointed by the state's executive, could but inspire confidence, and would prevent directors and executive officers from forming a ring which circles upon itself without a break. It seems to the commission that the presence of such men upon the board of directors of our life insurance companies would tend to give the people confidence and make impossible the growth of any such evils as have recently been brought to public attention by the developments in other states."

It is safe to assume if the Equitable Life Assurance society had had one such director upon its board, the reckless disregard of trust obligations would not have grown in magnitude until

revealed as the result of a personal quarrel between two of its officials.

We recommend the enactment of a law authorizing the governor to appoint one policy holder of each domestic company as an additional member of the board of trustees of such company; that such trustee shall have the same powers and be entitled to like compensation as other members of said board; that it be his duty to act as one of the inspectors of election, and to make an annual report to the governor with respect to the general condition of the company, and to make a report on any particular transaction at any time when so required by the governor.

PRIVATE LOANS MADE BY OFFICERS AND AGENTS OF THE COMPANY,
THEIR RELATIVES AND OTHERS, UPON THE SECURITY OF POLICIES.

Prior to 1893, the company made no loans upon the security of its policies. The testimony shows that for many years prior to this time, the officers of the company and others were making loans upon policies.

In 1893, the legislature of this state authorized every insurance company organized under the laws of this state, to make loans upon the security of its policies to an amount not exceeding ninety-five per cent of the cash surrender value of such policy at the time of making the loan, and provided that such insurance corporation may invest its surplus funds in other states on like security. The cash surrender value in the Northwestern is not equal to the reserve on its policies. This is due to the fact that the company makes a cash surrender charge. In 1894, the trustees adopted a resolution extending to the policy holders the right to make loans on the security of their policies, in an amount up to ninety per cent of the cash surrender value. The policies are recognized as the highest class of security; the rate of interest is higher than that of any other class of investments. The company has, at the present time, approximately, nineteen million dollars invested upon the security of its policies.

It appears from the testimony that ever since the company adopted the practice of making loans upon its policies, the officers, agents, employees, their relatives and friends, have been making loans upon the security of the company's policies. The

following table indicates the extent of this practice, and covers the period from 1901 to 1906:

Total private loans on policies.....	\$2,052,821.00
Private loans made by officers, agents and employees of the company and their relatives	1,167,093.00
Of this last amount outstanding at the present time	807,581.00
Total amount of loans made by persons not in the employ of the company during the above period.....	885,729.00
Total amount outstanding	567,805.00
Total amount outstanding on private policy loans made since 1901.....	1,315,386.00
(Test. p 1501.)	

As indicating the extent to which this practice of making private loans upon policies was engaged in by the officers, trustees and relatives of officers and trustees, we call attention to the following partial list covering the period from 1901 to 1906:

Mary J. Palmer, wife of President Palmer:

Total loans	\$27,160.00
Outstanding	25,090.00

Charles H. Palmer, son of President Palmer:

Total loans	\$52,300.00
Outstanding	27,400.00

George C. Markham, vice president:

Total loans	\$49,920.00
Outstanding	33,200.00

George F. Markham, son of the vice president:

Total loans	\$ 1,500.00
Total outstanding	1,500.00

W. P. McLaren, former vice president:

Total loans	\$19,400.00
Outstanding	5,500.00

C. A. Loveland, actuary:

Total loans	\$55,998.00
Outstanding	29,648.00

T. C. Lawler, trustee:

Total loans	\$26,850.00
Outstanding	26,850.00

J. W. Fisher, medical director:

Total loans	\$36,480.00
Outstanding	32,780.00

Emma J. Fisher, wife of medical director:

Total loans	\$17,900.00
Outstanding	13,500.00

George H. Benzenburger, trustee:

Total loans	\$11,600.00
Outstanding	11,600.00

W. D. Van Dyke, trustee:

Total loans at the time he became trustee..	\$148,400.00
Total loans since 1901.....	52,800.00
Outstanding	59,800.00

J. W. Skinner, second vice president:

Total loans, 1901; 1906.....	\$ 3,876.00
Outstanding	3,876.00

Frances Skinner, wife of W. J. Skinner:

Total loans since 1901.....	\$11,765.00
Total outstanding at present	7,230.00

H. F. Norris, superintendent of agencies:

Total loans	\$12,300.00
Total outstanding loans.....	12,300.00

B. K. Miller, trustee:

Total loans	\$152,860.00
Total outstanding	78,860.00

Mr. Merrill, former vice president:

Total loans	\$111,722.00
Total outstanding	66,110.00

Clara Merrill, wife of former vice president:

Total loans	\$14,500.00
Total outstanding	6,500.00

Grace Merrill, daughter of former vice president:

Total loans	\$11,115.00
Outstanding	41,115.00

A number of employees and relatives of officers and of employees too numerous to mention in this report have invested varying sums of money upon the security of policies. These private loans were encouraged by the officers, as they claim, solely for the accomodation of policy holders. The loans are made and attended to at the expense of the company.

At the time of the enactment of the foregoing law in 1893 and the resolution adopted by the company in 1894, the company had, and still has, outstanding two classes of policies which are known as,

First: Annual dividend policies: and

Second: Deferred dividend, or tontine policies.

Each class of policies has its reserve and cash surrender value. The deferred dividend policies, in addition to the cash surrender value have a large accumulation of dividends which under the terms of the policies, have not been distributed to the policy holders. These accumulated deferred dividends, at the present time, amount to about twenty-five million dollars. These dividends bear an entirely different relation to the policies and policy holders from that of the reserve. The annual dividend policy holder receives his dividend each year. The deferred dividend policy holder may never receive his dividend. If he defaults in the payment of premiums, or dies before the maturity of the tontine or deferred dividend period, he forfeits his entire accumulation of dividends. The testimony discloses a practical illustration of this forfeiture of accumulated dividends, in the case of Mr. **Patton** of Milwaukee. His deferred dividends amounted to \$17,000. He had paid the last premium upon his policy, and died six days before the maturity of the tontine period. Under the terms of his policy, his estate lost, because of his death before the expiration of the tontine period, \$17,000 in accumulated dividends. Under the stipulations of the tontine policy contract, as construed and enforced by the company, when these deferred dividends are forfeited, either by failure to pay premium or because of the death of the insured, the company is obligated to distribute such forfeited surplus to the other policy holders of the class to which the forfeited dividend policy belongs.

It will be observed that the law authorizes the company to make loans upon the security of a certain proportion of the reserve, but contains no provision authorizing the company to make loans to policy holders, upon the security of these accumulated deferred dividends. It was claimed by the officers of the company that many of these private loans were made upon tontine policies in excess of the cash surrender value, and were made upon the security of the reserve, plus the accumulated

dividend surplus; that these loans were not taken by the company for the reason that the company was not authorized by law to make loans in the amounts applied for. They recognized loans for such amounts as absolutely safe, but never asked the legislature to authorize loans to be made upon deferred dividend policies in excess of the cash surrender value. Their reason for not seeking this authority is,

First. Because at the time these deferred dividend policies were issued, the chief inducement which prompted the policy holder to take this form of policy was that those who lived to complete the tontine period, and made no default in the payment of premiums would, in addition to their own accumulated dividends, have apportioned to them the accumulated dividends of those who lapsed, either by failure to pay premiums or by death.

Second. That the officers of the company construed the terms of the tontine policy consistently with this understanding, and held, as a matter of contract, that the persistent tontine policy holder who lived to the end of his tontine period, was entitled to receive his proportion of the accumulated dividends of other policy holders belonging to his class, who had defaulted or died.

Third. That in order to continue the sufficiency of the security of the loan made upon the reserve and accumulated dividends, it might become necessary for the company to pay the premiums, thereby preventing a default, and that such action on the part of the company would be a violation both of good faith and of the plain terms of the contract obligations to its tontine policy holders. In this connection, however, the testimony shows that when the officers and trustees of the company made loans of this character, the other officers who had the matter in charge never permitted the forfeiture of the deferred dividend; that the officers who made the loans, to protect their own interests, paid the premiums and never permitted one of these policies to lapse. It appears that the officers and trustees of the company, for their private gain and advantage, pursued a course as individuals which they insisted they could not pursue as officers and trustees of the company, without a breach of good faith and contract stipulations with the other policy holders. For this participation in the breach of the company's contracts for his private gain the vice-president stated he had no justification to

offer and no apologies to make. The officers of this company, acting for the policy holders, and under obligations to protect each of them in their contract rights with the company, deemed it no impropriety to pursue a course which in effect violated the contract rights of some of the company's policy holders. In this respect they seem to have overlooked the very familiar principle of law, which may be stated as follows:

"No officer, agent or trustee should ever be permitted to place his official or trust duties in conflict with his private interests, because in all such contests, duty is apt to be overthrown in the struggle." *Marsh vs. Whitman*, 21 Wall. (U. S.) 178, 183.

The law authorized this company to make loans upon the security of its policies in the state of Wisconsin, and in all other states, but not to exceed 95 per cent of the cash surrender value. The officers and trustees of the company, their relatives and others, made loans upon annual dividend policies held by the policy holders of the company in the state of Georgia. Under the law enacted in 1893 the company was authorized to make these loans. The fact that the company did not make these loans as explained by the second vice-president was due to an oral opinion of the counsel of the company, that the company could not safely make them in view of the law as announced by the supreme court of the state of Georgia; the officers abided by the opinion of the company's counsel, but in making loans upon these same policies for themselves, they ignored it. It was admitted at the hearings, that the law as decided by the supreme court of Georgia, was precisely the same as the law enunciated by the supreme court of Wisconsin, and moreover, that all policy loans, wherever the policy holder resides, are governed by the laws of Wisconsin. While these private loans were being made by the officers upon policies held by residents of Georgia, the company was making loans upon policies held by policy holders residing in the state of Wisconsin.

The officers of this company now take a position in opposition to any legislation prohibiting them from making private loans upon the security of the company's policies. They did not notify the policy holders generally of this practice of making private loans upon the company's policies, and never reported the fact to the commissioner of insurance.

It appears from the testimony that the company prepared and printed two forms of assignment for private loans on policies, one which was sent to the policy holder upon demand, to be used by him in borrowing money without the intervention of the officers of the company. In this assignment there was no provision expressly authorizing the party making the loan, to pay the premiums and thereby continue the policy. The other form was used at the home office in making private loans participated in by the officers. This form contains an express stipulation authorizing the lender to pay premiums and add the same to the amount of the loan. The officers of the company never permitted loans of the latter class to lapse on account of failure to pay premiums.

COMPANY LOANS ON POLICIES.

Prior to 1894 some of the larger insurance companies extended to their policy holders the right to make loans upon the sole security of their policies. The amount of such loan was limited to a certain percentage of the reserve on the policy. The security was then, and still is, considered the best security offered to the company. The policy holder's money is held by the company to secure the policy holder's loan, and the company's own contract is its security. The right to borrow money upon the security of the policy was then, as it is now, deemed a valuable privilege to the policy holder, and was used by these large companies, in competition with the Northwestern, in securing business. Its popularity was recognized by the Northwestern company's field agents, and these agents time and again, urged upon the officers of this company, the advisability of extending a similar privilege to its policy holders. The testimony shows that officers of this company who were profiting by private loans upon the security of the company's policies, opposed the extension of this privilege, and succeeded in deferring it for several years.

The magnitude, and perhaps, the impropriety of these private loans by officers and others, suggested to some of the officers the duty of the company to make such loans, and they eventually secured the adoption of a resolution extending to the policy holders the privilege of borrowing upon the security of their policies, a sum not in excess of ninety per cent of the reserve.

Subsequently, in 1894 the company incorporated in its contract provisions an agreement to loan, upon the sole security of its policies, an amount set forth in a table therein contained at a rate of interest not exceeding six per cent. per annum "*upon satisfactory assignment of the policy as collateral security, and subject to the regulations of the company then in force relating to policy loans.*"

It will be noted that, in granting and contracting this loan privilege the company always reserved the right to make such loan subject only to such regulations as the officers had put in force, not at the time when the policy was issued, but at the time the loan is applied for. These regulations refer to the rate of interest under the stipulated rate and provisions of the loan agreement and assignment of the policy.

Under all of the company's outstanding policies this loan privilege is so worded as to enable the officers of this company to destroy this privilege by making the terms of the loan agreement such that no policy holder, unless as a last resort, would jeopardize his policy by accepting the loan.

When the company, in 1894, extended this privilege, they adopted as a maximum rate of interest six per centum per annum. At this time there were outstanding a large number of loans made by officers, relatives and friends of officers, drawing interest at the rate of eight per centum per annum. Had these policy holders, who were paying this high rate of interest, been notified that the company was loaning money at a lower rate of interest, they would have borrowed from the company and paid their loans which were made at the higher rate of interest. It appears, however, that no notice was given to the policy holders of their right to borrow from the company on the security of their policies at the rate of six per cent. interest per annum.

It appears, from the written evidence offered at the hearings of this committee, that after the company had so extended to its policy holders the privilege of loaning from the company at six per cent interest, a near relative of a high official of the company was making loans upon the security of policies at the rate of eight per cent per annum.

In the exercise of the reserved right "to make loans subject to the regulations of the company," the company required, at the time of this investigation, that all policy holders borrowing \$1,000

and upwards, should be charged five per cent interest per annum, while all policy holders borrowing less than \$1,000 were required to pay six per cent interest per annum.

No satisfactory explanation of this discrimination was made, and we believe none can be made.

It also appears that from 1894 down to the time of this investigation the terms of the loan agreement and assignment were made more drastic from time to time. The loan agreement in force at the time of this investigation, contained, among others, this provision:

"In case of a default or failure to pay said note or interest thereon when due, or any instalment of principal or interest on said note, or premiums, if any, on said policy, or policies, when due or payable, then said company is authorized, after said default or failure to pay, without demand or notice, which are hereby expressly waived, to determine the cash value of such policy or policies, computed according to the company's rules, and to deduct from the same the amount due on the above loan the residue, if any, of said cash value, to be paid without interest to, which said residue hereby agrees to accept in full payment and satisfaction of said policy, or policies, which thereupon shall be cancelled."

It appears, under this loan agreement, that a policy holder might lapse his policy:

First: By default or failure to pay the note.

Second: By default or failure to pay interest when due.

Third: By default in the payment of any instalment of principal or interest.

Fourth: By failure to pay premium when due.

Upon default in any one of these four conditions the company is authorized, by this loan agreement, without demand of payment or notice to the policy holder, to determine the cash value according to the rules of the company, deduct from such cash value the amount due upon said loan, pay the policy holder the difference between the amount of indebtedness and the cash value and cancel his policy. In all policies written prior to 1894 there is no stipulated cash surrender value. On loans made upon the security of these policies the amount of cash surrender value is a matter entirely within the discretion of the officers of the company. There is no charter provision, or law of this state, governing the amount

of surrender charges or cash surrender values. When these are not covered by contract stipulations the officers have the undoubted power to increase the surrender values to the full amount of the reserve, or to abolish surrender values entirely.

Under the provisions of this loan agreement referred to, and the practices of the company, if a policy holder borrowed one hundred dollars upon a ten thousand dollar policy with a stipulated cash surrender value of one thousand dollars, and failed to pay the first year's interest of six dollars on the note when it became due, the company may, without demand or notice, deduct one hundred and six (106) dollars from the cash surrender value of the policy, pay to the policy holder eight hundred and ninety-four (894) dollars, and cancel his policy.

The evidence taken shows that there is outstanding almost twenty million dollars. The harshness of this loan agreement became so apparent during the examination of the officers of the company, that they sought to minimize it by the claim that "while the company has authority to cancel upon such default, the officers never exercise this power," and the general counsel of the company stated that he had under consideration the preparation of a new loan agreement.* The statements made by the officers that they never exercised the powers granted by this loan agreement, were not borne out by subsequent investigation.

RESTORATION OF LAPSED POLICIES.

Upon the happening of any default, as provided by this loan agreement, the officers of the company exercised the right, upon payment of such default, to permit the policy to be restored, but required the policy holder to furnish evidence of good health and good habits before such restoration was permitted. In case of default where the policy holder made application for restoration, the company took advantage of his changed habits with respect to the use of intoxicating liquors and his impairment of health, and refused to restore for these reasons.

INSPECTION DEPARTMENT.

Unknown to the policy holders and the public in general, the company maintains a department known as the "inspection de-

*The Company has recently adopted a very liberal loan agreement

partment." This department is conducted at an expense to the policy holders of from twenty to twenty-five thousand dollars per annum. Its principal functions are the sending out of inquiries to commercial agencies and confidential correspondents, with respect to the health, character and habits of policy holders:

First: As to the use of intoxicating liquors.

Second: With respect to character and standing in the community.

Third: With respect to health.

If it appears from these reports that a policy holder has deteriorated in health or changed his habits with respect to the use of intoxicating liquors, no effort is made on the part of the company or its agents to avoid any default, either in payment of premiums, or of interest or principal in case of a loan. The chief purpose of this inspection department is to gather information on which to base a refusal to restore a policy in case of any default, and to promote defaults and lapses.

Whenever these agencies, or any of them, report to the company that a policy holder's health is impaired, or his habits with respect to intoxicating liquors changed, a caution mark is immediately placed opposite his name on the company's books, and a notice on which a square is placed opposite his name is sent to the general agent with the following directions:

"Please decline to accept all premiums unless paid on or before the date when due, in any case where the ☐ appears in the margin of the report sheet opposite the name of policy holder, without first obtaining consent from this office."

Upon receipt of this notice it is the duty of the agent to refuse to accept a premium, if offered on the next or any day after it becomes due, thereby lapsing the policy, and bringing the matter before the home office upon the question of restoration.

Mr. W. J. Skinner, secretary and third vice-president, the official head of this department, in his general examination upon the subject, declared that there were no reasons except intemperance, which prompted the sending out of these notices with the square on them. Subsequent examination of the books and records of the company clearly indicates that he was mistaken, and that such caution marks were placed against policy holders and notices thereof given to the agents because of ill-health as well as intemperate habits. Much testimony was taken in relation to

the detail workings of this department and the manner in which particular cases were treated. It is impracticable to include all of this testimony at length in this report. We deem it proper, however, to illustrate the working of this system of injustice and discrimination, by taking some actual sample cases, and setting forth the facts in relation thereto.

CASE OF EDWARD C. REED.

In July, 1898, Edward C. Reed, then thirty-one years of age, residing at Lynchburg, Va., by occupation a salesman, took out policy No. 403146 for the sum of two thousand dollars. The inspection department sent out its inquiries with respect to this risk, to certain mercantile agencies. It was admitted on the examination that the representatives of these agencies made no examination of the risk, but simply made inquiries and answered as best they could, but did not, as a rule, see the policy holder. (Test. pp. 342-343.) The Wilbur Mercantile Agency, answered the following questions as herein set forth:

"Q. Character and standing in the community?

A. Good.

Q. Habits as regards the use of spirituous or malt liquors?

(Answer carefully.)

A. Did at one time.

Q. Health?

A. Crippled up terribly with rheumatism. Health poor."

It appears that when Mr. Reed made application for insurance he was examined by one Dr. John W. Dillard, physician for the company and also Mr. Reed's family physician. In his application for insurance he stated in writing that he had suffered from muscular rheumatism. As a result of the foregoing report from the Wilbur Agency, the Medical Department began making inquiries with respect to Mr. Reed's health and received the following communication:

"*Dear Dr. Fisher:* Mr. Reed, of whom you write is in a bad condition. He is troubled with chronic rheumatic arthritis deformis. I regard his condition as serious. (Strictly confidential.)

Yours truly,

JOHN W. DILLARD."

(Test. p. 343.)

Appended to the record in this case was the following note written by E. J. Stone, special agent of the inspection bureau:

"Said to have had an attack of muscular rheumatism three years previous to July, 1898. E. J. Stone, 2/23/01."
(Test. p. 344.)

Also the following note from E. J. Stone:

"Dr. Dillard was the physician who examined him for insurance 4/24/01. This is a case we can do nothing with."

Upon this information as to Mr. Reed's health a square was placed opposite his name and the agent of the company directed not to receive his premium unless paid on or before the date upon which it fell due. Mr. Reed received no notice of the date on which his premium fell due. The premium fell due on August 25th and he tried to pay it on August 26th, but because of the instructions to the agent, he refused to receive it and the policy was lapsed. Mr. Reed thereupon made application for restoration and on Sept. 10, 1902, forwarded to the company a certificate of health. Dr. Fisher, the medical examiner, then wrote Dr. Dillard for further information in regard to the health of Mr. Reed and Oct. 30, 1902, received from Dr. Dillard the following letter:

"Dear Doctor: Yours regarding E. C. Reed to hand. I have not seen Mr. Reed since my report on his case about a year ago. From all that I can learn he has not improved and his deformity was great when last seen by me. I cannot say whether he has had any acute attacks within the last year.

Yours truly,

JOHN W. DILLARD."

The inspection department continued its investigation through commercial agencies and on May 8, 1903, received a report from another commercial agency as follows:

"Q. Character and standing in the community?

A. Good.

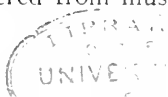
Q. Habits in regard to use of intoxicating liquors?

A. Good, does not drink.

Q. Health?

A. Not good. Invalid for past four or five years. Wife attends to business."

The company refused to restore this policy because the insured was suffering from rheumatism. In his application for insurance he stated that he had suffered from muscular rheumatism. The



policy was reduced from two thousand (2,000) dollars to four hundred (400) dollars. Mr. Reed died in January, 1906, from abscess of the liver. (test. pp 341 and 381. test. pp 389-390.)

All of the foregoing facts appeared from written evidence. The committee had under consideration reports in other cases of substantially similar character, and from these it appears that had the default been in payment of notes, or in instalments of interest a similar course would have been pursued.

CASE OF THOMAS J. KING.

Mr. King had four policies in the Northwestern Life Insurance Company, Nos. 150416, 164280, 198848 and 198849. We call especial attention to the fact that policy 150416 was for the sum of \$5,000. He made application for a loan in the sum of \$765.00. The company required an assignment of all four policies to secure this loan, although, under the rules of the company, the loan could have been made upon the security of the three policies, namely 164280, 198848 and 198849. Had the loan been made upon the security of these three policies, the insured would have had left the fourth policy of \$5,000 freed from the drastic provisions of the policy loan. There was a default of interest for two years and all four policies were cancelled. The total indebtedness was \$856.00. The cash value of the three policies, exclusive of No. 150416, was more than sufficient to pay the entire indebtedness, yet all four policies were cancelled under the provisions of the loan agreement.

The terms of this loan agreement placed in the hands of the officers the power to discriminate between two policy holders who had defaulted in their premiums, or in case of a loan, upon their interest or principal.

WILLIAM G. LORRIGAN CASE.

In connection with the record referred to in the case of Edward E. Reed and of Thomas J. King, we desire to call attention to the case of William G. Lorrigan, one of the judges of the supreme court of California. Judge Lorrigan took out policy No. 172540, on July 9th, 1888, in the amount of \$3,000. In February, 1899, he made a loan upon the security of this policy in the sum of \$500. This policy was cancelled under the statute of limitations

of the state of California on March 25, 1904. The general agent of the company at San Francisco wrote Mr. J. C. Crawford, assistant actuary of the company, as follows:

"Dear Sir: I received your letter to William G. Lorrigan, one of the judges of the state supreme court, cancelling his policy and enclosing a check for the same. We mailed this draft to him on the 23rd, and he immediately called me up and asked for an appointment this morning and has just left my office. He is disappointed over the action of the company, although he does not blame the company in the matter. He admits his own carelessness, but claimed a pressure of business. The supreme court here is a very busy one and I do not think that he is a very good business man; but they have recently rendered one or two decisions decidedly in our favor and I do not think we can afford to be too exacting in this case. . . . I will ask you to let me hear from you as to how to adjust this matter and reinstate the policy, by return mail, and oblige

Very truly yours,

CLARENCE H. SMITH,

General Agent."

Under date of March 1, 1904, J. W. Skinner, secretary, replied to the foregoing letter as follows:

"Your letter of the 25th inst. in relation to Judge William Lorrigan, insured by policy 112540, has been handed to me for attention. We very much regret that it was necessary to cancel this policy, in accordance with the terms of the assignment, for a company loan, because of the expiration of the time allowed under the statute of limitation in your state. Restoration may be effected, however, by refunding to the company the full amount paid for surrender, with interest. After restoration the policy will again be available for a loan.

Yours truly,

J. W. SKINNER,

Secretary."

This policy was restored March 22nd, 1904. In restoring this policy the company asked for no reports from commercial agencies, or confidential letters from doctors, either as to the habits or health of Judge Lorrigan. The policies of Judge Lorrigan and Mr. Reed were in precisely the same condition. One was

as effectively lapsed as the other. The company refused to restore the Reed policy because of impairment of health, but made no inquiries as to the health of Judge Lorrigan. It is only just to the officers of the company to state that although, upon this investigation, unable to state any reasons for the difference in the treatment of these two policy holders, they did assert that they were not influenced by the fact that the court of which Judge Lorrigan was a member "had recently rendered two decisions decidedly in favor of the company."

CASE OF JOHN M. BARRON.

Mr. Barron took out policy No. 463255, ordinary life insurance, in the sum of three thousand (3,000) dollars. The policy was issued Sept. 12, 1900. The inspection department received reports on this policy holder as to his health and habits. The first one is not dated and states: "He drinks to excess. He took the bankrupt law." The second report, dated May 18, 1901, states: "His habits are all right. Health good." Another report dated August 4, 1903, is as follows: "Don't drink. Health apparently good." Another report dated August 8, 1903: "Character fair. Drinks to excess six or eight times a year for only a day at a time. Health good." A caution mark was placed opposite this policy holder's name on the record, August 8, 1903. His policy was lapsed December 12, 1904, and restoration was refused on account of his habits in the use of stimulants. (test. p 142).

CASE OF BENJAMIN D. SMITH.

Mr. Smith took out a policy with the company in 1889. Seven years later, on March 18, 1896, the company obtained a report from a commercial agency as follows: "A physician. Character good. Habits in regard to use of spirituous or malt liquors, good. Health poor." On March 18, 1898, the company received another report from a commercial agency, as follows: "Character and standing in the community, bad pay." "Habits in regard to the use of spirituous or malt liquors? Good. Health? Bad, seventy years old, in bad health and insolvent." Upon receipt of this report a caution mark was placed opposite Dr. Smith's name, and the agent instructed not to receive premiums from him unless

paid on or before the date when due. The policy was lapsed November 1, 1899, for failure to pay premium when due. He applied for restoration and an opportunity to pay his indebtedness to the company. On October 30, 1900, J. W. Skinner, secretary of the company wrote to the company's agent at Atlanta, Ga.:

"We have reason to believe that Dr. Smith is in poor health, therefore cannot consent to a restoration of this policy."

It will be observed that these caution marks stood against this policy holder for a period of three years before his policy was lapsed; that he carried his policy and paid his premiums for a period of ten years; that at the time his policy lapsed he was seventy years of age, and restoration was refused for the reason that he was in poor health.

CASE OF FRANK HARRIS.

This policy holder took out a policy with the company May 21, 1890, for \$1,000, twenty payment life, twenty year semi-tontine. He paid his premiums for eleven years. Upon the report of a commercial agency, a caution mark was placed by the inspection department against this policy holder's name on May 19, 1898. One premium was not paid on or before due. The agent, acting under instructions, refused to receive payment after due. Within one month after the policy was lapsed, the insured made application for restoration on June 21, 1901. Restoration was refused and he lost his policy and forfeited the accumulations of eleven years tontine dividends.

CASE OF CHARLES L. MOSES.

Mr. Moses took out a policy with the company in the sum of \$2,000, ordinary life. It was dated October 28, 1889. The policy lapsed in October, 1899, ten years later. The insured immediately made application for restoration, on Dec. 14, 1899. The company refused to restore on account of habits. The character of the testimony upon which this policy was lapsed and restoration refused, appears from the written records on file in the office, as follows:

Under date of Aug. 26, 1890, one agency reported: "Character and standing in the community, good. Candidate for congress.

Habits as regards the use of spirituous and malt liquors, temperate. Am not certain he uses any at all, perhaps not. Health good."

Another commercial agency reported, February 11, 1895: "Character and standing in the community, good. At present congressman from this district. Habits as regards the use of spirituous and malt liquors, temperate. He is not an habitual drinker. Health apparently good."

On April 17, 1897, another agency reports: "Character and standing in the community, good. Habits as regards the use of spirituous or malt liquors, temperate. Health good."

Notwithstanding these various reports, on Dec. 14, 1899, the company wrote concerning this policy holder as follows:

"We write to ask you if you are acquainted with Charles L. Moses, aged 43, a farmer. If so, whether you can give any information concerning his past and present habits in the use of stimulants. Has he, to your knowledge, used them to excess in the past, or is he doing so at the present time. What is his general standing in your community and reputation regarding the use of intoxicants?"

This letter was written by the medical department of the company. It was claimed by Dr. Fisher that he had received a report from some other insurance company, on May 9, 1899, that it had declined his application on account of his habits. The reply to Dr. Fisher's letter was under date of Dec. 16, 1898, as follows:

"Will say that for several years the party has been going on occasional spree, and has been intoxicated several times this fall. He is not a regular drinker and goes for months at a time without drinking any. This is the reputation he has in this locality."

On Dec. 16, 1899, another personal letter was written, to the effect that

"If he does not drink to excess now, he has reformed very recently. He is an ex-congressman from this district and stands very well in this community, except the habit of drinking. I do not consider him a first class, nor even a second class risk for insurance."

The matter of restoring these policies was governed by no rule; it was claimed to be a matter of discretion and judgment; that

one man with a certain state of facts established against him may be restored, while another may not. (test. p 1446.)

CASE OF A. D. RUSSELL.

Mr. Russell held policy No. 284038 in this company. The company had received from its commercial agencies four reports upon the habits of this policy holder. Three of these represent his habits as good; one that "once in a while on a holiday or Saturday night, he got a little too much beer, but never neglected his work. That he did not drink at all while he was working."

On April 24, 1896, upon the strength of these reports, J. W. Skinner, secretary of the company wrote the general agent in the city of Milwaukee, as follows:

"Mr. D. E. Murphy, City. Dear Sir: We have unfavorable information as regards the habits of A. D. Russell, insured by policy No. 284038. Please give instructions so that no effort will be made to collect the premium due on the 25th of next month, or any premium, beyond sending the usual notice. In case of lapse no steps to be taken in regard to restoration without communicating with this office."

Yours truly,

J. W. SKINNER."

These instructions, unknown to the policy holder, stood against him for four years, during which time it appears that he promptly paid his premiums. Finally his policy lapsed in 1890.

The books of the company show that policy holders, numbering to the thousands, are marked with this square and annually instructions are sent to the agents to make no effort to collect the premiums beyond giving the usual notice, and not to receive premiums if offered after the date upon which they fall due.

It appears to be the practice of the agents of the company, when not otherwise instructed, to collect premiums if paid after due and even to advance premiums for policy holders and subsequently collect them. With this practice of the agents known to so many of the company's policy holders, these instructions, not to receive premiums after due are sent out to the agents while no notice is given to the policy holder that his changed habits or impaired health would jeopardize his standing in the company. A policy holder may be lulled into security by the fact that the agent

has, for many years, without objection, received his premiums after due. He is unaware of the fact that his changed habits or impaired health have marked him for secret, exceptional treatment. He delays payment of his premium for a few days after it becomes due, as he may have done before; under the instructions to the agents, the policy is lapsed; his premium will not be received and the company refuses to restore it.

The testimony also shows that if any policy holder in this company applies for further insurance and answers the questions in his application as to the use of intoxicating liquors, or questions affecting his health differently from the answers made in his former application, his subsequent application is rejected, a caution mark is placed opposite his name and the agent instructed to make no effort to collect premiums on his old policy when due. If the policy is lapsed the company uses his answers in his application for more insurance to justify the refusal to restore his former insurance.

It also developed during the examination that a number of large companies, including the Northwestern have what is known as an "interchangeable bureau of information" in connection with their medical departments. Through the operations of this bureau, and rules governing it, if a person is rejected for insurance by one of these companies, his name, address and cause of rejection are sent to all of the other companies in the combination, and he is by such other companies placed upon what may be described as their "blacklist." The exchange of this information is no doubt useful in preventing other companies from being imposed upon by bad risks, and to that extent, if the examinations are made by competent physicians and with sufficient care, may result in protection to those companies. That such examinations are not always made by competent physicians or with sufficient care is suggested by the fact that men who are rejected by one company, are frequently accepted by another. In such instance, the operations of the interchangeable bureau, only serve to make it more difficult for such persons to secure insurance. The Northwestern Mutual, however, in case of its own policy holders, carries this information beyond the purposes for which this bureau was organized. If any policy holder of the Northwestern applies for insurance with another company connected with the bureau, and is rejected on account of habits or health, this information is com-

municated to the medical department of the Northwestern, and by that department turned over to the inspection department. A square is placed opposite such policy holder's name and the agent instructed to make no effort to collect his premiums. In case of his inadvertence or neglect to pay the premium when due, his policy is lapsed, and, upon the question of its restoration, the information derived through this interchangeable bureau is used to justify a refusal to restore.

It therefore appears that, through the operations of the inspection department in this company, a policy holder of the company whose habits are changed, or whose health is impaired, not only jeopardizes his old policy, or policies, with this company by applying for further insurance with the company, but likewise jeopardizes his old insurance by making application to any of the companies connected with the interchangeable bureau of information.

It is conceded that when premiums are fixed, they are made large enough to cover the increased hazards of future changed habits and impaired health. The only explanation offered for the existence and operations of this inspection department is that it improves the mortality of the company and enables it to pay higher dividends to other policy holders. It is a serious question whether this method of improving the mortality of the company is justifiable. It would be difficult to defend any practice in a mutual company which takes advantage of one policy holder to increase the dividends of another policy holder. It would be interesting to know how many cents each of the other policy holders' dividends are increased through the operations of this department. This fact the committee is unable to report because of the inability of the officers to give any information upon the subject. The strength of this explanation of the existence and operation of this inspection department was materially weakened, if not totally destroyed, by the repeated admissions of the officers that no investigation was ever made to determine whether the saving from this source was equal to the expense of maintaining the department. The great bulk of insurance is not written for the protection of the insured. It is intended as a protection to his family. In view of this fact, and the further fact that the premiums collected are made large enough to cover the increased hazards of changed habits and impaired health, we can see no injustice to the other policy holders of the company if policy

holders are encouraged to continue their insurance for the protection of their families, especially at a time when, because of changed habits and impaired health, such protection becomes most necessary. Upon the other hand it appears to us exceedingly unjust, after a man has carried his policy and paid his premiums for a number of years—premiums large enough to cover all the hazards of the future—for the officers of an insurance company by methods and unreliable reports unknown to the policy holders and the public, to lapse his policy at a time when his family requires its protection and when he can secure no insurance from any other company.

In our opinion there is but little in the practice or conduct of this department that is justifiable or commendable.

OTHER DISCRIMINATIONS.

The officers of the company assert the claim that they are vested with discretionary power, both in restoring lapsed or cancelled policies and in settling claims. This being a mutual company, all policy holders are entitled to like treatment. We find no provisions of the charter which warrant the officers in exercising a discretion which leads to discrimination between policy holders. The discretion which they exercised in this respect was conferred upon them by themselves, and in the exercise of this self-conferred discretion we find that the officers have discriminated against policy holders in the matter of restoring their policies when lapsed or cancelled and likewise discriminated against the beneficiaries in settling claims.

In this respect we call attention to a few leading examples:

The company has a stipulation in its policies to the effect that if the insured commit suicide, sane or insane, within two years, the policy shall be voided. Under this contestable provision, the evidence shows that the officers of the company claimed the right, where the defense of suicide was suspected, without proof to sustain it, to reject the claim, and where suicide was admitted, to waive the defense and compromise the claim.

SIGMUND GUTHMANN CASE.

Mr. Gutmann of Chicago took out a policy of insurance with this company in the sum of \$5,000. It contained the usual sui-

cide clause. He committed suicide twenty-one months from the date of the policy, or three months prior to the two year's limitation. The evidence shows without question or contradiction that he came to his death by suicide and there existed no legal liability. On July 26, 1902, one of the general agents in Chicago wrote to the president of the company and among other things said:

"Many cases may be cited of similar claims to the Gutmann claim having been paid, some of them under policies less than one year in force."

Under date of July 28, 1902, Charles D. Norton, the other one of the general agents of the firm of Kimball & Norton, wrote a letter to Willard Merrill, vice-president, concerning this claim. In this letter he states:

"We are particularly anxious here that, if exceptions are ever made under the two year clause, they be made in this case. *It seems to me that the interests of the company will be served by paying the claim, and will be seriously injured by not paying it.*"

Dr. Stone as special agent was instructed to investigate the claim, and on Aug. 11, 1902, wrote to Dr. Fisher, the medical director, concerning the case and states, among other things:

"I had a talk with Mr. Julian Mack (Mrs. Gutmann's attorney), with whom you are acquainted. He is a brother of the young Mack and a nephew of M. J. Mack, general agent at Cincinnati. Mr. Mack has been acquainted with the family for some years and is well acquainted with the Gimbel family and their attorney. He also states that the Gimbel family *is a very prominent family of Hebrews, carrying insurance with the company to a considerable extent.* I understand that Mr. Gutmann was a man who was very highly thought of by those who knew him."

In this letter of Dr. Stone he emphasizes the fact that the friends of Mr. Gutmann's are influential and hold policies with the Northwestern. The general agent wrote, as will be observed, that it would be for the best interests of the company to pay the claim, and that the company would be injured by refusing to pay it. The company allowed upon this claim \$2,000.

PLEUTHNER CASE.

The testimony also shows that one Dr. Pleuthner, at the urgent solicitation of the agent of the company, took out a policy in the sum of \$1,500. He paid thereon two years' premiums. The policy contained the same provision as the Gutmann policy to the effect that if he committed suicide within two years the policy would be voided.

Twenty-seven days before the two years had expired, he died suddenly in a drug store. His wife, the beneficiary, made a claim under the policy, and Dr. Stone was sent as special agent to investigate the claim. A coroner's inquest was held and returned a verdict that he died of neuralgia of the heart. The company set up the defense of suicide to claims made under the policy. Dr. Stone reported that the only evidence justifying a refusal to pay the claim on the ground of suicide was the circumstance that he died suddenly in a drug store, and, being a doctor, was familiar with poisons; that he was satisfied that if Dr. Pleuthner took poison it was done by mistake and not intentionally. Upon these facts which would constitute no defense in any court, the company refused to pay the claim. In the investigation of this matter before the committee the officers of the company defended their discrimination between the beneficiaries in these two cases by denominating it "the exercise of their discretion."

During the period from January 1, 1902, to July 1, 1902, the company settled eighteen cases of alleged suicide under policies less than two years old. Some of them they paid in full; others they compromised. It is hardly conceivable that the officers of this company acting as the servants of all its policy holders in these eighteen claims, set up the defense of suicide without evidence to sustain it, and for the purpose of forcing a compromise with the widows and orphans of its policy holders. The conclusion is suggested, either,

First. That they attempted to force a compromise and succeeded in some cases by asserting the defense of suicide when the company had no evidence to sustain it; or

Second. That in making these settlements they discriminated against the beneficiaries of some of these policy holders.

INCONSISTENCIES BETWEEN POLICY AGREEMENTS AND LOAN
AGREEMENTS.

Under the present provisions of the policies of the company, after payment of premiums for three or more years, it is provided that if default shall be made in the payment of any premium, the policy shall secure, without action on the part of the insured, non-participating paid up insurance in accordance with a table therein stated; or, if the insured, together with the beneficiary and assigns, if any, at any time prior to or not later than three months after such default, shall have made written application for extended term insurance, the company (provided that said application shall not have been revoked in writing), will, in lieu of the paid up insurance aforesaid, extend and continue in force the full amount of the policy as non-participating term insurance, in accordance with the table therein stated; but if the insured shall die within one year after such default, the company will deduct from the amount payable, all premiums that would have become due under the policy within said year, had default not occurred, with interest thereon at not to exceed the rate of six per cent per annum, providing that any existing indebtedness due the company on account of the policy, if not paid in cash, will reduce the amount of paid-up or extended term insurance, in the ratio of such indebtedness to the reserve on the policy.

Second. If the policy be not then extended as term insurance, the company will, upon request, with the full and valid surrender of the policy and all claims thereon, pay a cash surrender value in accordance with the table given, less any existing indebtedness to the company on account of the policy.

Third. If the policy be not extended as term insurance, the company will grant a loan, in accordance with the table given, at not to exceed six per cent annual interest, upon a satisfactory assignment of the policy as collateral security, and subject to the regulations of the company then in force relating to policy loans.

With these provisions in the policy, the company, in the exercise of the reserved right to make such regulations as the officers may deem fit in relation to policy loans, incorporated in the loan agreement the following provision:

"It is further understood and agreed, that the responsibility of paying premiums, if any, required to keep said policy or policies in full force, is wholly assumed by the party now paying the premiums thereon; and, further, that during the continuance of said loan, *the privilege of term extension shall not be allowed and any written request for the same filed with said company is hereby revoked.*"

It is obvious, as conceded on the examination, that this provision as well as the other provision of the loan agreement with respect to default in the payment of premiums, is in direct conflict with the stipulated provisions of the policy.

At the time when the policy holder is solicited and the policy received, he is given to understand the value of paid up insurance, in case of default, and the right of extended term insurance upon application, and the privilege of making a loan upon his policy. These are all placed before the policy holder as valuable rights and privileges which he is purchasing at the stipulated premium. After having purchased these rights he finds that under "the regulations of the company," he can exercise the loan privilege only by waiving the privilege of paid up and extended term insurance. These inconsistencies emphasize the fact that the contract privileges and rights of the policy holder should be expressed in such terms that they cannot in after years be destroyed or taken away by "company regulations."

It is our opinion that laws should be enacted which will place the policy holders in a company upon terms of absolute equality, and prevent all companies transacting business in this state from taking advantage of the policy holders' inadvertence or inability to meet his premiums or loan payments, and will place the policy holder beyond the operations of secret, unreliable inspection departments. These ends, the committee is convinced, will be fully attained by standard provisions relating to surrenders and automatic loans, hereinafter set forth.

NORTHWESTERN AGENCY SYSTEM AND COMPENSATION PAID TO
AGENTS.

The Northwestern Mutual Insurance Company employs at the home office H. F. Norris as superintendent of agencies. He has a general supervision of the field work of the company, selecting its general agents, making contracts, and supervising the entire agency work of the company. His duties in this respect cover the entire field work. The company has in its employment eighty-three general agents. These general agents are charged with the duty of making contracts with sub-agents, subject, however, to the approval of the company. The terms of these sub-contracts are passed upon and approved by the superintendent of agencies. He receives a salary of \$12,000 per annum.

FORM OF GENERAL AGENT'S CONTRACT.

By the terms of his contract the general agent has charge of the work of soliciting applications, and collecting and remitting premiums for insurance within his territory, with power to appoint agents, subject to the approval of the company. The general agent agrees to devote his time, energy and ability to the promotion of the interests of the company, as contemplated by the contract. It is stipulated that the general agent shall receive, in full compensation for his services, commissions on premiums collected on all policies issued on applications secured by him and his agents during the continuance of the contract.

Attached to this contract is the following memorandum covering renewals:

"Confidential. To

The first renewal commission on business, except renewable policies obtained under your contract during the year 1906, will be 15% instead of 7.12%, as provided by said contract. All other commissions on business obtained under your contract during the year 1906, will be stated in said contract."

The reason why this provision for 15% renewal commissions is not contained in the general form of the contract, is that the

officers may be in a position to terminate it at the end of one year.

All the compensation paid to sub-agents and solicitors, is paid by the general agent from the commissions provided for in his contract with the company. The actual percentage paid on all new business on all forms of policies is as follows:

On all life policies with ten or more premiums..	45%
Single payment life.....	6%
Five payment life.....	29%
Single payment 10 year endowment.....	4.3/10%
Single payment 15 year endowment.....	4.6/10%
Single payment 20 year endowment.....	4.9/10%
Single payment 25 year endowment.....	5.3/10%
Single payment 30 year endowment.....	5.6/10%
Single payment 35 year endowment.....	5.8/10%
Single payment 40 year endowment.....	6%
Ten year endowment.....	20%
Fifteen year endowment.....	40%
Ten payment	15.1/2%
15 year endowment.....	31.8/10%
10 payment 20 year endowment.....	34.7/10%
10 payment 25 year endowment.....	37.5/10%
10 payment 30 year endowment.....	40%
10 payment 35 year endowment.....	42%
10 payment 40 year endowment.....	43.6/10%
15 payment 20 year endowment.....	44%

The above figures are for age 35, and will be subject to a slight variation at other ages, but not to any appreciable extent.

GENERAL AGENTS, AND COMMISSIONS PAID.

The firm of Kimball & Norton represent the company as general agents in Chicago. Mr. Kimball has occupied this position since 1894. Prior to that time he was assistant superintendent of agencies at the home office, and received a salary of less than \$12,000 per annum. Mr. Norton is a nephew of the late general counsel of the company, and has been a member of the firm of Kimball & Norton for a short period. Prior to his becoming

general agent he was engaged in the business of soliciting insurance.

For the year 1904, the general agency of Kimball & Norton received:

First year's commissions.....	\$125,459
Renewal commissions	165,962
	<hr/>
Total	\$291,421
	(test. p 1059.)

For the year 1905, John I. D. Bristol, general agent at New York received:

First year's commissions.....	\$132,057.72
Renewal commissions	142,805.96
	<hr/>
Total	\$274,863.68

Formerly the firm of Dean & Payne represented the company as general agents in Chicago. The records of the company show the returns made by this firm to the company, and the following commissions for the year indicated:

1886.	New premiums	\$ 86,232.99
	Renewal premiums collected....	435,618.00
	First year's comm. paid.....	39,270.48
	Renewal commissions paid.....	32,218.00
1887.	New premiums collected.....	85,540.00
	Renewal premiums collected....	516,172.00
	1st year's commissions paid....	39,779.00
	Renewal commissions paid.....	36,466.00
1888.	New premiums	120,960.00
	1st year's commissions.....	55,242.00
	Renewal premiums	557,185.00
	Renewal commissions	40,336.00
1889.	New premiums	130,837.00
	1st year's commissions.....	68,245.00
	Renewal premiums.....	661,985.00
	Renewal commissions	48,183.00

1890.	New premiums	111,561.00
	1st year's commissions.....	88,193.00
	Renewal premiums	717,169.00
	Renewal commissions	51,804.00
1891.	New premiums	174,236.00
	1st year's' commissions	88,193.00
	Renewal premiums	817,210.00
	Renewal commissions	60,176.00
1892.	New premiums	122,904.00
	1st year's commissions.....	62,853.00
	Renewal premiums	828,117.00
	Renewal commissions	68,312.00
1893.	New premiums	78,236.00
	1st year's commissions	44,193.00
	Renewal premiums	915,191.00
	Renewal commissions	63,788.00
1894.	New premiums	37,319.00
9 months.	1st year's commissions.....	18,283.00
	Renewal premiums	707,131.00
	Renewal commissions	51,585.00

From this statement it appears that in 1891 this agency collected and paid in to the company, new premiums amounting to \$174,236, and received \$60,176 in renewal commissions; while in 1893, when they collected and returned to the company only \$78,236 of new premiums, they received \$63,718. (test. p 1063.)

J. C. Trask, Cleveland, Ohio, general agent for the company received in 1905:

1st year's commissions	31,258
Renewal commissions	53,780

The general agency of Murphy & Surles, Milwaukee, Wis., in 1905 received:

1st year's commissions	75,611
Renewal commissions	113,157

This does not include the entire amount received by this agency, as there appears to be quite a large proportion of the business reported directly to the company by sub-agents of Murphy & Surles.

Out of these sums received by the general agents they pay their office expenses, all commissions to sub-agents, and all other expenses connected with the writing of new business and collection of premiums, excepting printing and postage, which is paid by the company. The amount of compensation paid to sub-agents is left entirely to the general agents. Although the superintendent of agencies and the committee on insurance make the contracts upon which these large sums of money have been paid to the general agents, and also examine and approve all contracts made between the general agent and his sub-agents, the officers of this company, including the superintendent of agencies, were unable to give to the committee any information as to how much these first year's commissions and renewals net to the general agents, and have never made any investigation to ascertain this fact. (test. p 1070.) It was, however, conceded that most of the general agents referred to received a higher net income than the president of the company. (test. p 1110.)

It appears from the testimony that the income of some of the general agents of this company has not resulted from their individual efforts. Some of the most remunerative general agencies have been built up at the financial risk and by the personal labors of agents now deceased, and their successors are now reaping the fruits of the personal energy of those who preceded them.

While it appears that the Northwestern is able to secure a president at a salary of \$25,000 per annum, a general counsel at \$17,000 per annum, an actuary at \$12,000 per annum, and a superintendent of all its agencies at \$12,000 per annum, it is contended that it cannot employ competent general agents at a salary of \$20,000 per annum. (test. pp 1118, 1119.)

In connection with the compensation paid to agents for securing new business and collecting premiums, we call attention to the following statement taken from the report of the company to the commissioner of insurance of this state, for the year 1905.

PAID AGENTS, 1905.

First year's commissions	\$1,541,434.29
Renewal commissions	1,851,353.25
Traveling and other agency exp.	12,158.81
Original commissions on annuities...	595.33
Renewal commissions on annuities...	350.00
<hr/>	
Total paid for new business and col- lecting renewal premiums.....	\$3,405,591.68

OTHER EXPENSES, 1905.

Medical examiner's fees...	\$181,992.67
Inspection of risks... ..	20,981.12
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Total	\$202,973.79
Salaries of home office employees....	543,201.46
Rent, company's occupancy of home office	41,448.01
Advertising, printing, stationery and postage	180,458.51
Legal expenses	22,874.33
Furniture, fixtures and safes	5,475.01
Insurance, taxes and department fees..	649,395.90
Tax on real estate.....	70,281.25
Repairs and expenses (other than taxes) on real estate	161,512.29
Loan expenses	149,942.04
Traveling expenses	267.25
Taxation expenses	5,783.23
Loss expenses	57.54
Expenses of trustees and executive committee	33,475.70
Exchange	8,802.98
Expenses of examination by insurance commissioner	4,598.39
Judgment paid	1,000.00

Adjustment of real estate values.....	18,874.69
Freight and express	13,365.65
	<hr/>
Total	\$2,113,788.02
	<hr/>
Difference	\$1,291,803.66

The foregoing statement shows that the total amount paid to agents in securing new business and collecting renewal premiums, exceeded the total amount of all other expenses of the company by \$1,291,803.66.

EXPENSE OF NEW BUSINESS IS IN EXCESS OF AMOUNTS COLLECTED
TO DEFRAY SAME.

From the official reports returned by the Northwestern for the year 1905, it appears that the total amount collected for expenses on account of new policies issued in that year was \$755,120. The total expenses incurred in connection with said policies were \$1,152,054. It thus appears that \$996,934 which was expended on this new business was drawn from the funds of the policy holders. (Insurance Commissioner's Report, p 173.)

The same report shows that the Union Central collected on its new business for the same year, an expense provision of \$276,352, and that it expended on account of said business \$810,020. It thus appears that \$563,668 was drawn from the funds belonging to the old policy holders, to provide for the expenses incurred in connection with this new business. (Insurance commissioner's report, p 562.)

The same report shows that the thirty-three companies doing business in this state, (exclusive of the industrial companies, Metropolitan Life and Prudential) collected for the expenses of business written in 1905, \$79,971,540.43, and expended on account of the same business \$86,000,055.50. The excess \$6,028,515.07, was drawn from the funds belonging to the old policy holders.

The practice of drawing upon the funds of the old policy holders is attempted to be justified, upon the theory that the writing of new business is beneficial to the old policy holders. This contention, however, is met by the following facts:

First. The net cost of insurance in companies writing the

largest amount of new business is considerably higher than the net cost of insurance in companies writing a less amount of new business. (See p 179.)

Second. The gains from mortality on account of first year's business are but a fractional part of the amount contributed by old policy holders toward such new business.

This is illustrated as follows:

- (a) In the case of the Northwestern Mutual for the year 1905,
- | | |
|---|-----------|
| Mortality gain on first year's business..... | \$146,460 |
| Amount contributed by old policy holders on ac- | |
| count of these policies..... | 996,934 |
| Difference | 550,474 |
- (b) In the case of the Union Central:
- | | |
|---|-----------|
| Gains from mortality on first year's business for | |
| 1905 | \$ 96,378 |
| Amount contributed by old policy holders to ex- | |
| penses on account of these policies..... | 563,668 |
| Difference | 467,290 |

Third. In addition to the above mentioned application of the mortality gains, it appears from the testimony before this committee that it has been the custom of companies generally, to use all gains from surrendered and lapsed policies to meet the excessive cost of obtaining new business. This practice, however, does not relieve the old policy holders from the expense burdens of new business, as above indicated, because if the gains from mortality and surrendered and lapsed policies were not thus expended, they would contribute to the general surplus—the source of dividends to old policy holders.

We conclude, therefore, from the foregoing facts, that the benefit to the old policy holders, as measured by the extravagant amount contributed by them on account of new business, is questionable.

The old policy holders have a vital interest in the character of the company's investments. This company has a number of loan agents in various parts of the country. It does not appear that there has ever been a general meeting of loan agents to exchange ideas as to the best methods of securing high class investments, earning high rates of interest. On the other hand, the testimony shows that it is the practice of the company to annually assemble its general agents engaged in soliciting new business in vari-

ous parts of the country, at a general meeting held at the home office in Milwaukee. The purpose of these annual gatherings is to inspire enthusiasm, distribute prizes to those who have written the largest amount of new business during the year, and exchange ideas as to how business may be increased for the coming year. The expenses of these agents from their homes to the city of Milwaukee, during the meetings and upon their return, are paid by the policy holders. The testimony shows that the company disbursed on account of the expenses of this annual meeting in 1905, \$10,000; in 1906, \$14,500. Other companies adopt similar extravagant methods for the accomplishment of the same purpose.

We do not point out this questionable practice with the view of criticizing the company for not assembling its other agents at the expense of the policy holders. We call attention to the tendency of all companies to overlook the interests of the old policy holders in the present high pressure competition to secure new business.

REBATING.

Rebating is closely related to the matter of large first year's commissions to agents. It is the practice of receiving from a policy holder the full premium, and then, either directly or indirectly, returning to him a part thereof.

The testimony before the Armstrong committee shows that these rebates amount to from 20 to 90% of the first year's premiums paid. In the judgment of experienced insurance agents, a large percentage of those who receive rebates never pay a renewal premium. They are written at the expense of the old policy holders, enjoy the benefits of insurance during the first year and drop out at the end of the year.

Mr. Gage E. Tarbell, a gentleman of wide experience in the business of insurance and in the acquisition of new business, as well as a keen observer, testified before the Armstrong committee as follows:

"Rebating is perhaps the greatest evil in life insurance . . . and I have not any doubt at all but what there are five or ten or fifteen millions of dollars annually given away in this country in rebates. . . The seriousness of the matter is in

the fact that it has undoubtedly increased the cost of business generally, and the unfairness of the matter is in the fact that some policy holders, that the cost of the business generally in the entirety, has been increased by reason of it, and some policy holders who pay 100 cents on the dollar get no benefit, and the policy holder who gets a rebate of 25 cents up to 30 cents on the dollar, does get the benefit of it. Therefore it is obviously unfair. The granting of very large commissions is likely to stimulate rebating. The agent has something with which he can buy the business."

Mr. Norris, superintendent of agencies of the Northwestern, testified before this committee as follows:

"On general principles the company believes rebating is bad. In the first place, it enables one policy holder to receive his insurance at a less cost than other policy holders. It is discrimination. Second, it is demoralizing to the agent, and prevents him from making the money he should out of the business. . . . An agent can work for less commission if he gets his entire commission and is compelled to keep it."

This committee held one session at which the general agents of the Northwestern then assembled in Milwaukee, and all other general agents of companies transacting business in this state, were invited to discuss with the committee the subject of rebating and how it can be prohibited. The evils of rebating were conceded by all and the practice denounced as demoralizing and vicious. The existence of rebating was admitted by practically all who were present.

The subject of rebating by agents of the Northwestern was investigated. The committee made demand upon the officers of this company for copies of all blank forms of contracts printed by the company for general agents and sub-agents. Copies of such contracts with general agents and sub-agents were produced but the company failed to produce copy of a contract known as the "Sub-agent's Helper's Contract." This contract is printed by the company for the use of its sub-agents in selecting men who are employed in large concerns to solicit and write insurance of those with whom they are employed and others. We called before the committee for examination one of these sub-

agent's helpers, employed in a firm of which one of the trustees of this company is a member. He admitted that he solicited and wrote a policy of insurance upon the life of said trustee. He was asked whether or not he returned any of his commission to this trustee, either directly or indirectly, and upon the advice of his counsel declined to answer, upon the ground that his answer might convict him of a criminal offense.

We examined several business men in the city of Milwaukee who had taken out large policies with this company, and in reply to questions whether they had paid the full premium or whether they had, directly or indirectly, received from the agent a portion of said premium, they likewise declined to answer upon the ground that their answers might convict them of a criminal offense.

The conclusion is reasonable in each of these cases that the policies were written upon a rebate, and we are satisfied that the sub-agent's helper is essentially a rebater, and selected by the sub-agent with the full understanding that he is to write policies at a rebated premium.

It is our judgment that any company sincerely combating the evil of rebating, will not permit its agents to enter into these sub-agent's helper's contracts.

We are satisfied that with the testimony taken before this committee in relation to the subject of rebating, the officers of the Northwestern can find in the home city of the company, conclusive evidence, sufficient to justify them in furnishing to the public and to their agents, a striking example of their earnest condemnation of the evil practice of rebating.

Many remedies have been suggested to minimize this evil. Some states have provided that any agent convicted of rebating shall have his agent's license cancelled. Such is the law in this state. Other states have made rebating a misdemeanor, while still other states have made it a felony. The recent law of the state of New York makes it a crime upon the part of the agent who gives, and the policy holder who receives. It seems to us that this enactment will not minimize rebating, while it will close the lips of both parties who participate in it. Rebating, like bribery, is a crime committed in secret, and where all who participate in it are guilty, each may decline to testify un-

der the constitutional provision that no man shall be compelled to give evidence against himself.

A penal statute of this character to be of any effect, should make it a crime for any person to give, solicit, ask or receive a rebate, and it should further provide that any person called to testify with regard to the subject of rebating shall not be excused from testifying, and when compelled to so testify shall enjoy the same immunity as is now given to witnesses who are guilty of participating in the crime of bribery, and who are compelled to give evidence in relation thereto.

Aside from its demoralizing effect upon the agent who gives rebates, the other policy holders alone are interested. Under the plan which we have herewith set forth and the enactment of the legislation proposed, if the agent gives a rebate he must pay it out of his own moneys, and the other policy holders cannot be affected thereby.

LEGISLATIVE EXPENSES AND DISBURSEMENTS.

The testimony shows that this company from time to time paid out various sums of money in promoting and defeating legislation. With the exception of one large item and several small items, the latter being incurred in securing information as to pending legislation in the various states, the chief disbursements in this connection have been made since 1898.

In March, 1899, the executive committee passed the following resolution:

"Resolved, that the subject of taxation of the Northwestern Mutual Life Insurance company, as it arises in connection with various bills pending in the legislature, be and the same is hereby referred to a committee consisting of the president, second vice-president and counsel, with the authority on the part of the committee to consider, determine and agree upon such modification and adjustment of the basis and rate of taxation, as shall be deemed by the company excessive."

On December 5th, 1900, in executive session a resolution was adopted appointing Messrs. Merrill, McLaren, Markham, Miller and Dyer as such committee, with instructions that they look after legislation in the various states, aside from Wisconsin, affecting the interests of the Northwestern, and that they be au-

thorized to incur such expense as in the judgment of the members thereof, shall be necessary to secure information as to pending and threatened legislation, and to present their views on the same as necessity may require, to the several legislatures or committees thereof.

This resolution above quoted related to the matter of taxation in this state.

Under the resolution of March 10th, 1899, this last named committee took up the matter of opposing the enactment of legislation then pending before the legislature of Wisconsin. The chief bill then pending affecting the interests of the Northwestern was what is known as the "Orton law." This bill provided for an increase of taxation of the company. The company considered this measure unjust and employed several people to undertake to induce the legislature to defeat the passage of the bill. It employed for this purpose ex-attorney-general Mylrea, Ole Olson and Edward P. Hackett. Mr. Mylrea filed with the company an itemized statement of the time he was employed and the expense incurred in connection with his employment. Neither Mr. Olson nor Mr. Hackett filed, or were required to file, a similar itemized statement. Mr. Olson was paid \$1,000 and Mr. Hackett \$3,000 for this service. The company has no record indicating the nature of the services rendered by either of these gentlemen—nothing but a mere voucher claiming the amount due, and the allowance thereof by an officer of the company.

The Orton bill became the law of the state, and in December, 1900, the company engaged the services of Mr. Thomas Spence of the city of Milwaukee to represent its interests before the legislature, then about to convene, in an attempt to modify or repeal the so-called "Orton Tax Law." Mr. Spence was employed to undertake to talk with the members of the legislature and other people, with the view of inducing them to reduce this tax. It was conceded by the officers of this company that at the time they employed Mr. Spence for this purpose two officers of the company, Judge Dyer and Mr. Merrill, both employed upon a fixed salary, were better equipped than any other two persons in this state to represent the facts to the committees of the legislature.

No officer of this company could give the committee any information as to the time spent or the services rendered by Mr.

Spence. No itemized statement was made and none was demanded. The company's books show that Mr. Spence received for his services the sum of \$11,000.

Early in the investigation Mr. Spence informed the committee that he intended to leave the state to be absent for a considerable time. At the time when the expenditure of this \$11,000 was first under investigation, the vice-president of the company stated that there was no living officer of the company, and no records kept by the company from which facts could be ascertained, that would enable an officer to explain to the policy holders the nature of the services rendered by Mr. Spence; that without the aid of Mr. Spence they could get no information from the books, papers or records of the company, as to how much time he had spent, the character of the services rendered, or whether he ever made any argument or presentation of the facts to the legislature, or any committee thereof. (p 1350-1353.)

The company had no record as to the foundation of this claim, except a voucher for so much money. After Mr. Spence returned from his trip to Europe he was called before the committee and fully testified as to his employment by the company to appear before the legislature, at the session of 1901. He was employed,

First. To take charge of a preliminary movement to be taken before that session to endeavor to get an amelioration of what the company regarded as an excessive increase of their taxes in 1899 from what they had theretofore been accustomed to pay, a modification of the Orton law, or something more than a modification, if possible; that at this time the press of the state had expressed no disapproval of the Orton law; that Judge Dyer and Mr. Merrill appeared before the tax commission and made very learned arguments against the continuance of the law. These arguments were published, but did not meet with popular response. These arguments were published at the expense of the company in all the Milwaukee dailies, English speaking except the News. That at the time of his employment he advised the company that to be of any benefit that year, the legislation must become a law before the first of March; that this required immediate action upon public sentiment and the members of the legislature; that the accomplishment of this would require considerable expense, and he asked them to leave that, as far as possible, to him; that he em-

ployed a number of assistants, some to examine the law upon the subject of taxation, and others to meet members of the legislature; that he employed two young attorneys of ability, character, and excellent standing, who had given the subject some attention in advance. He spent several days with them in his office, discussing the merits of insurance taxation. After he got them equipped for arguing the question he employed them on a stipulated basis of \$25 a day each, for such work as they should do before the legislative committee.

At the opening of the legislature Mr. Spence had a partial estimate made of the classification of the general views of the legislature with reference to the modification of this law. They were divided by him into two classes, (a) hostile class, (b) fair-minded class. Mr. Spence made several trips into distant parts of the state where he thought the printed arguments would not have reached, conferred with editors and proprietors of newspapers at La Crosse, Ashland, Superior and Eau Claire. He arranged for the publication of articles in these newspapers, paying to certain papers \$200, and to others as low as \$75. He expended \$400 for the printing done in the newspapers outside of Milwaukee, purchased a large number of copies of these newspapers and sent them to different parts of the state.

Second. After the legislature had convened he conferred with the tax commission, Judge Orton, the chairman of the committee of assessment and collection of taxes of both houses, chairman of the insurance committee, and two or three older men of the house whom he got to meet in conference in the tax commission's office. With these men he had a large number of sessions and gave his whole time to that class of men in the legislature, who were recognized as leaders of sentiment in that body. There were no committee meetings of the legislature as such, no arguments made. Among other things, he employed two detectives, as he was afraid at one time of graft, and had some very broad hints from one or two gentlemen, and he feared an organized hold-up.

Third. He finally secured the passage of a bill which modified the so-called "Orton Law." Mr. Spence stated positively that he paid none of this money received by him to any member of the legislature or any person in the employ of the state; that he had a direct solicitation from one of the members of the legis-

lature for a bribe; that this proposition was made to him in writing; that when this member attempted to oppose the enactment of the bill, Mr. Spence passed round the lobby to where the member stood in the assembly, got behind him just as he was trying to attract the attention of the speaker, took him by the coat-tail and told him he had better sit down.

It appears from the testimony of Mr. Spence that this member of the legislature committed the crime of soliciting a bribe; that with the written evidence of the crime in his possession Mr. Spence silenced the opposition of said member to the passage of the bill then pending before the assembly; that after the passage of the bill he returned to the member such written evidence and advised the member to destroy it; that his entire compensation for his services after paying all expenses and disbursements was about \$6,000.

On January 5, 1905, the executive committee of this company passed a resolution appointing George C. Markham, W. D. Van Dyke and J. W. Skinner as a legislative committee, and authorized them to incur such expense as in their judgment would be necessary to secure information as to pending legislation in the various states where the legislatures were or would be in session during the winter, and to present their views on any such legislation, as necessity might require, to the several legislatures or committees thereof, and also authorized them to employ such assistants as in the judgment of the committee might be necessary. Pursuant to this resolution they employed R. M. Bashford, an attorney at Madison, with the understanding and agreement that he was to be paid at the rate of \$15 per day, and a reasonable compensation for making arguments before committees. During that session there were three bills introduced to tax the Northwestern, and Mr. Bashford was employed to defeat that legislation. It was claimed by the vice-president of the company that Mr. Bashford rendered valuable services, appearing before committees, writing briefs, and *talking with* members of the legislature. It was admitted that so far as Mr. Bashford's briefs were concerned, Judge Dyer furnished him the statistics used. Mr. Bashford rendered no itemized statement of the number of days he was employed, either in making briefs, making arguments before the committees, or for any service. The company had no itemized record or entries of the services rendered by him, except

a voucher making a claim for \$3,500, which was allowed and paid.

It also appears that in 1897 the company paid to one Benjamin H. Hill of Georgia \$3,000 for services as counsel in connection with a bill known as the "Dodson Bill" in the Georgia legislature. This was legislation affecting the interests of the company in that state. The company has no record of any itemized statement of the time spent or services rendered by Mr. Hill. Mr. Hill signed a voucher for \$3,000, the claim was allowed and the amount paid.

This committee recognizes the fact that emergencies may arise when it may be necessary to employ counsel to protect the interests of the company against the enactment of legislation. We are convinced, however, that all such disbursements should be carefully itemized, allowed only by the executive committee, and proper entries made on the books of the company, in such manner that either the officers who incurred the expense, or those who may in future years be in charge of the company, may be able to furnish the state or any of the policy holders, with full and accurate information as to the services rendered for the compensation paid.

We would recommend in this connection, the enactment of a law requiring the officers of all companies transacting business in this state to annually report to the commissioner of insurance, a statement showing in detail all bills favored or opposed by it, the state in which such legislation is pending, the names and addresses of parties engaged as counsel or otherwise, the services rendered, the sums paid them, and expenses of advertising, travel, etc.

CAMPAIGN CONTRIBUTIONS.

The testimony taken before this committee shows conclusively that neither the Northwestern Mutual Life Insurance Company, the Union Central Life Insurance Company of Cincinnati, nor the Wisconsin Life Insurance Company, have ever contributed a dollar of the company's money, either directly or indirectly, to any campaign fund, nor to secure the election or defeat of any candidate for office.

It appears from the testimony taken before the Armstrong committee that several foreign companies operating in this state, have made it a common practice to contribute large sums of

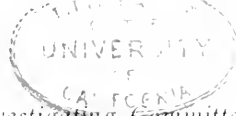
money, extending into hundreds of thousands of dollars, belonging to the policy holders as "campaign contributions." That the officers of these companies, conscious of the impropriety of the act, juggled with the entries in the company's books in such manner as to conceal the real transaction. It also appears that the officers of companies who have made such contributions, attempted to justify the practice. Their attempted justification is notice that they do not intend to abandon the practice.

We believe that the state of Wisconsin should place its seal of condemnation on the practice of the officers of any insurance company doing business in this state, using the funds of its policy holders for any such illegal and immoral purpose. The attempted justification of this practice demonstrates the utter unfitness of those who make it, to hold any office of trust.

We would recommend the enactment of a law, requiring all insurance companies transacting business in this state to file an annual statement setting forth the amount of money disbursed, either directly or indirectly, for campaign purposes, and containing a schedule showing in detail all such disbursements, the amount and purpose thereof, the names and addresses of parties to whom paid; said statement to be verified by the oath of the president of the company, and where it appears from such report that contributions have been made for the purpose, that the license of such company to transact business in this state be thereupon cancelled.

INVESTMENTS.

The success of any life insurance company depends largely on its investments. If these are safe there are no losses by foreclosure or other litigation. If they earn a high rate of net interest there will be liberal dividends to the policy holders. To combine safety with a high rate of net interest, therefore, should be the first aim of those connected with the financial side of a life insurance company. As to what constitutes safety, coupled with liberal returns, there may be some honest difference of opinion, but no one will seriously contradict the statement of Insurance Commissioner Cutting of Massachusetts, that "the reserve should be held in the best earning safe investments, and among these there is no better model, or one more generally unobjectionable,



than well selected mortgages, one great advantage of which is the absence of market fluctuations; another the better average rate of interest, and another, the unlimited amount of them always to be obtained by respectable exertion on the part of the financier." (Mass. Report of 1899, p 13).

In this connection there are several things about the investments of the Northwestern that attract immediate attention. The committee did not deem it necessary to appraise all the loans of this company, but did take at random, certain properties located in different parts of the country, and obtained the opinion of experts as to their value, and we found that every loan was amply secured. In the first essential, to wit, the "safety of investments" this company is, in our opinion, above criticism.

With respect, however, to the interest received on its loans, the record is not so commendable.

The following table shows in parallel columns 1 and 2, the percentage of total assets invested in bonds, the percentage invested in real estate mortgages, and column 3 shows the rate of interest earned by the company on its mean invested assets, from 1890 to 1904 inclusive:

INVESTMENTS OF THE NORTHWESTERN LIFE INSURANCE CO.

Year.	Bonds, per cent of assets.	Mortgages, per cent of assets.	Interest rate earned by company.	
			Per cent.	
1890	7.00	83.74	5.91	} A fall of 21.49 per cent or over 1-5.
1891	6.09	83.42	5.68	
1892	8.24	80.17	5.45	
1893	8.80	81.32	5.49	
1894	10.51	76.23	5.72	
1895	15.24	72.22	5.46	
1896	15.79	72.35	5.41	
1897	19.80	64.67	5.25	
1898	20.96	62.37	5.00	
1899	29.08	55.75	4.80	
1900	33.96	51.90	4.98	
1901	38.29	47.77	4.65	
1902	39.93	46.35	4.63	
1903	37.87	48.11	4.79	
1904	37.25	47.88	4.64	

This table at once reveals the fact that there has been a steady decline, relatively, in the mortgage loans of this company from 83.74% of its assets in 1890 to 47.88% in 1904, and a corresponding increase in the bond holdings from 7% of its assets in 1890 to 37.25% in 1904. Column 3 shows that there has been a

marked decline in the rate of interest during the same period. The question then arises as to the connection between the two, if any. The testimony shows what every financier knows that there has been a general decline in the rate of interest during this period. But it is equally well known that real estate mortgages, as a rule, yield a higher rate of interest than do stocks and bonds, the principal reasons being that,

1. Stocks and bonds usually run for longer terms.
2. They call for larger amounts.
3. They possess a higher degree of convertibility, and
4. They often carry with them some real or fancied corporate connections that are of value to the financiers, and for this reason they are more eagerly sought.

The experience of the Northwestern shows that they have generally realized a higher rate of interest on their mortgages than on other bonds. In some years the difference is quite marked, as is shown in the following table:

Year.	Interest earned for \$100 invested in bonds.	Interest earned for \$100 invested in mortgages.	Difference in favor of mortgages.	Per ct. of differ- ence in favor of mortgages.
1896	\$4.50	\$5.38	\$.88	19.54
1897	5.12	5.36	.24	4.68
1898	4.52	5.37	.85	18.80
1899	4.60	5.29	.69	15.00
1900	4.59	4.87	.28	6.10
1901	4.68	4.75	.07	1.64
1902	4.74	4.71	-.03	-.63
1903	4.11	4.50	.39	9.48
1904	3.97	4.54	.57	14.35
1905	4.15	4.68	.53	12.75

The above table shows in the most striking manner the relative earning power of the two classes of securities which make up the bulk of the investments of the Northwestern, and we deem it of importance to call attention to a few of its details.

In 1905, \$100 invested in bonds earned \$4.15. The same amount invested in mortgages earned \$4.68, or 53 cents more than the \$100 invested in bonds. In terms of cents this difference may seem small. Consequently, we have computed it in another way that will show more truly its full significance. At the rate above stated it would take \$2,109.63, invested in bonds to earn \$100. The same amount invested in mortgages would earn \$112.15 in interest, or 12.34% better than the bonds.

The amount received as interest on bonds in 1905 was \$2,993,-963. If this be increased by 12.34% it would mean a difference of about *\$315,130 in the interest earning, and would increase the dividends to the policy holders by that amount. As to the other years, the table speaks for itself.

There is another feature of the mortgage loans of the Northwestern which deserves special attention. This is the large amounts loaned on city real estate, at a rate of interest very little, if any, above the rate realized on the bonds.

It was brought out in the testimony (p 988) that about 25% of the entire real estate mortgage loans of this company were in the city of Chicago, where many of them were drawing interest at only 4%.

In marked contrast with the Northwestern, we find the record of the Union Central Life Insurance Company of Cincinnati, which has over 80% of its admitted assets invested in mortgage loans, a vast majority of which are farm mortgages. These two companies are principally investing in the same territory.

The following table shows the *net* rate earned on the invested assets of the Northwestern Mutual and Union Central Life Insurance companies:

Year.	N. W. Mut. net rate.	Union Central net rate.	Difference in favor of U. C.	Per cent. of difference in favor of U. C.
1890.....	\$5 25	\$6 03	\$ 78	14.94
1891.....	5 37	6 42	1 05	19.58
1892.....	5 47	6 15	.98	18.99
1893.....	5 03	6 48	1 45	28.84
1894.....	5 01	6 33	1 32	26.31
1895.....	5 21	6 11	.90	16.98
1896.....	4 91	6 31	1 37	27.79
1897.....	4 81	6 42	1 61	33.46
1898.....	4 67	6 21	1 54	31.00
1899.....	4 40	6 15	1 75	39.80
1900.....	4 21	5 27	1 03	24.27
1901.....	4 52	5 55	1 03	22.88
1902.....	4 21	5 29	1 08	25.68
1903.....	4 21	5 87	1 66	29.55
1904.....	4 40	5 44	1 01	23.70
1905.....	4 38	5 54	1 16	26.37

According to the above table every \$100 invested by the North-

*The actual difference would be about \$381,730 in gross interest, but we have allowed \$6,000 for extra investment expenses connected with mortgages.

western in 1905 earned \$4.38 net, while \$100 invested by the Union Central earned \$5.54 net, a difference of 116 cents, or 26.37% in favor of the Union Central.

If the entire funds of the Northwestern had been invested at the same rate of interest as the funds of the Union Central, it would have made a difference in 1905 of over \$2,000,000, and would have increased the dividends of the policy holders of the Northwestern by that amount, or 26.37%. In other words, for every \$100 received by the policy holders of the Northwestern as interest on their money they would have received \$126.37—over one-fourth more.

This comparison, however, is on the basis of the entire investment of the two companies, and the net rate earned. Another comparison equally interesting is that of the comparative earnings on the mortgage loans of these two companies. In the table below are the percentages computed on the mortgage loans alone, and they show conclusively the superiority of farm loans to city loans in the middle west, as safe and high interest earning investments:—

AMOUNT OF INTEREST EARNED PER \$100 OF MORTGAGE LOANS OF THE NORTHWESTERN AND UNION CENTRAL.

Year.	Interest on \$100 N. W. Mortg's.	Interest on \$100 U. C. Mortg's.	Difference in favor of U. C.	Per cent of difference in favor of U. C.
1895.....	\$5.38	\$7.39	\$2.01	37.36
1896.....	5.36	7.36	2.00	37.30
1897.....	5.37	7.41	2.04	37.99
1898.....	5.29	6.89	1.60	30.23
1899.....	4.87	6.98	2.11	43.31
1900.....	4.75	6.82	2.07	43.57
1901.....	4.71	6.38	1.67	35.44
1902.....	4.50	6.58	2.08	46.21
1903.....	4.54	6.53	1.99	43.82
1904.....	4.68	6.41	1.73	36.96

It will appear from the above table that the contrast is even greater than in the preceding table. This is due to the fact that the farm mortgages of the Union Central constitute by far the best investments, while those of the Northwestern, being largely on city property at a low rate of interest, are but little better than the bonds. The greatest difference was in the earnings of 1902 when the mortgages of the Northwestern earned less than their bonds; but the difference is marked throughout, and would indicate that as far as earnings on investments are concerned, the Northwest-

ern has lost materially by overlooking the value of farm mortgage investments. This demonstrates either incompetency or neglect in its loan department.

It is not our purpose in making the above statement to indulge in invidious comparisons, and we use these figures and facts which are found in the record of this investigation, for the purpose of emphasizing the statement, that we believe the officers of the Northwestern might earn a larger amount of interest, without jeopardizing the solvency of the company, and consequently, distribute higher dividends, by a reasonable amount of "respectable exertion" on the part of those who have in charge the matter of farm loans.

The attention of the officers of the Northwestern was, during the investigation, called to this contrast. The president explained the situation by saying that it was simply an impossibility to invest the funds of this company at rates of interest which were formerly received, and keep the funds invested. That the company could not get 5% interest on bank balances or anywhere approximating it; that during the last five or six years the company had loaned millions at a very much lower rate of interest than 6% and lower than 5%. This was done because they did not want to have the funds lying idle in the banks; that it was often difficult to keep their bank balances down below five millions, and in order to have the money draw interest at all, the company was obliged to purchase railroad bonds, state bonds and municipal bonds, and buy them at prices that would not produce over 4%, sometimes a little less than 4%. The company makes no loans in villages or in cities of 1,500 to 2,000 population. It also appears from the testimony that this company has \$20,000,000 loaned in Illinois, and something over \$1,000,000 in Wisconsin. These Illinois loans include the company's large loans in the city of Chicago.

FARM LOANS IN WISCONSIN, IOWA AND MINNESOTA.

The testimony shows that at the close of the year 1905 this company had 2,800 loans in the state of Minnesota, 2,100 in Iowa, and only 14 farm loans in the state of Wisconsin outside of Milwaukee county; that from January 1st, 1906, to May 10th, 1906, this company added two additional loans, making at the time of

this investigation in all 16 farm loans in seventy counties of this state.

The total amount loaned in Wisconsin upon these 11 farm mortgages reported was \$87,000; the total amount loaned on farm mortgage securities in the state of Minnesota alone, is over \$4,000,000.

The president of the company offered as an explanation of the comparatively small number of loans in Wisconsin, that they could not get mortgages in this state, because the people were not obliged to borrow money on their farms. To show the fallacy of this explanation, the committee obtained from the office of the state tax commission, a large number of volumes containing lists of thousands of mortgages that have been recorded in this state within a single year, at rates of interest ranging from 4% to 10%, as shown by the following table:

MORTGAGES RECORDED IN WISCONSIN FOR THE YEAR ENDING DEC. 31, 1901

Number.	Amount.	Rate.
		Per cent.
1275.....	\$2,650,984	1
481.....	1,541,577	4½
10259.....	16,767,065	5
614.....	1,210,864	5½
9588.....	9,733,767	6
4266.....	2,315,525	7
1607.....	618,288	8
477.....	138,889	10
28558.....	\$34,976,902	

In certain counties in this state where more than a quarter of a million dollars was loaned during the year 1901, the Northwestern secured none. In Grant county where over a million dollars was borrowed on real estate security, the Northwestern secured a single loan. In Dane county where something over \$2,000,000 was borrowed on real estate security, the Northwestern secured two loans.

First vice-president Markham undertook to explain this condition by saying that the people of Wisconsin did not cheerfully submit to the exactions of the Northwestern in the examination of titles, and gave this as a reason why numerous loans were made in counties of Minnesota adjoining counties in Wisconsin in which no loans were made. It was his opinion that the people of Minnesota cheerfully submit to these exactions, while the peo-

ple of Wisconsin refused to do so; that in his opinion a reason why more loans were not made in Wisconsin was due to the fact that there is a more friendly feeling toward the Northwestern Life Insurance Company outside of Wisconsin than in Wisconsin (p 1303). That the people of Wisconsin did not feel kindly toward the Northwestern Life Insurance Company. That he learned from reading political speeches, statements made and figures given, and also political editorials, that the farmers of this state comparatively were not in debt.

He further stated that in his opinion it would not be wise to sell bonds which are earning but 3.61% interest and invest the money in 5% real estate loans in the state of Wisconsin, because it would not be good business to "put all the company's eggs in one basket." He admitted, however, that the placing of \$20,000,000 of the company's assets in the city of Chicago was an exception to the old familiar maxim.

Mr. Sanborn, another member of the finance committee stated that the reason why the company did not make more farm loans in Wisconsin was that the laws of this state prohibited the company from making a loan on real estate, in excess of 50% of the value of the real estate, exclusive of the buildings. Another member of the finance committee, one who has been a member of the finance committee for a period of six years, drawing a salary of \$5,000 per year as such member of said committee, and a lawyer of ability, volunteered to clear up the whole matter of the apparent neglect in this field of investments, by a statement that the charter of the company prohibited the company from loaning an amount in excess of 50% of the value of the real estate, exclusive of the buildings; that under this law the company was compelled to decline many desirable loans, because the amount required was in excess of 50% of the value of the real estate, exclusive of the buildings. He insisted that the responsibility for the company's inability to make more farm loans must rest with the legislature that enacted this law. Upon further examination, however, he admitted that there was no such law upon our statute books; that the limitation was contained in a by-law of the company, which the directors might have amended or repealed at any time during these six years, had they so desired.

We are convinced that the safety of this company's investments would not be impaired by a little more exertion on the part

of the finance committee to extend their investments in farm mortgages.

We are also convinced that the difference between the real estate loans in Minnesota, Iowa and Wisconsin, is due chiefly to the inexperience and incompetency of the son of the first vice-president who is at the head of the farm mortgage loan department in the state of Wisconsin. He stated that when he was employed for this position at a salary of \$1,500 a year, which has since been increased to \$2,500 per annum, he had no knowledge of farm lands in Wisconsin, except what he had acquired by traveling about the state for pleasure and study; that during these short trips he was not interested in the examination of values of the lands (pp 902-903). He admitted that he had no knowledge of lands located in Washington county adjoining Milwaukee county, and that he made no trips to the country except to investigate applications already made (pp 918-919).

His incompetency to hold this position is demonstrated by a remarkable absence of results in securing Wisconsin farm loans. His appointment is an example of nepotism which has resulted in loss to the policy holders, and which ought not to be tolerated by the trustees.

The solvency of the Northwestern has not been questioned. Nevertheless the committee deemed it advisable to make some tests of its reserve liability. To that end, several groups of policies were taken at random, including policies of all kinds and all ages at issue, from 15 to 65, and years of issue from 1865 to 1903, and valued as of December 31, 1905. In every group thus examined, the reserve charged by the company was in compliance with law.

It may not be out of place in this connection to call attention to the fact that the examinations made heretofore by the department of insurance, have been directed practically, to the question of solvency only.

THE UNION CENTRAL LIFE INSURANCE COMPANY.

This company was organized as a stock company, under the laws of Ohio, in the year 1867. It is governed by a board of directors who are elected by the stockholders. The policy holders have no participation in the election of officers, and no representation on the board as policyholders.

Article 6, section 1, of the by-laws of this company provides that all directors and all officers shall be stockholders, and each director shall hold in his own name and have under his own control, not less than \$500 of the capital stock. It also contains this provision: "Provided, however, that the policy holders may have a representation in the board, whenever in the judgment of the stockholders the interests of the company and of the policyholders demand it."

The statutes of Ohio require the board of directors to be elected by the stockholders. This provision of the by-laws is in direct controvention of the statute and is of no effect. It was adopted as an amendment to the by-laws about twenty years ago. The reason for adopting this amendment, as stated by the officers, was that the stockholders thought the time might come when it would be advisable to have a representation of the policy holders in the board. They never took any action under the by-law. (Test. p 129.) The matter of giving the policy holders a representation on the board, has been considered by the directors in an informal way. A number of directors have favored it. Others have opposed it. It is the judgment of the officers of the company that the time has come when it would be desirable for the policy holders to have such representation, because of the magnitude of the company, and the wide-spread interest in the insurance business in general, together with the feeling that it would be desirable to have these policy holders represented on the board in some way. (Test. 131.) The idea advanced by those who favor the policy holders having representation, is that the board of directors should select say, five directors to represent the policy holders. These directors should be men of character and standing in different localities in the country; that such action would give confidence in the management. (Test. 132.)

The officers, however, think that the directors would be more competent to make a selection of men to represent the policy holders, than the policy holders themselves. Under the existing conditions, if 95% of the policy holders desired representation, there is no way of getting it. This committee can see no legal way by which the policy holders of this company, under the law of Ohio, can secure a representation on the board of directors, except,

First. By the stockholders surrendering their stock to the company and making it a mutual company. Or

Second. By an amendment of the law of Ohio authorizing policy holders of insurance stock companies, to elect the board of directors, or a portion thereof.

CONTROL OF THE COMPANY.

The board of directors have general control over the management of the company. They elect officers and fix their salaries. The board is authorized to pay the necessary expenses of conducting the business of the company, and all approved claims, resulting from death and matured endowments, to establish a reserve fund to cover all outstanding risks, according to the 4% reserve standard, and to establish and perpetuate a surplus fund, in such sum as may, in the judgment of the board, be necessary for the security of the company.

STOCK PROFITS.

The by-laws provide, that from the profits arising from the business of the company the board shall semi-annually declare a dividend of five per cent to the stockholders. This rate of 5% semi-annual dividend was determined when the rate of interest was very high. The rate has constantly been coming down ever since, but the matter of the equity of reducing it has never been seriously considered by the stockholders.

Under the organization of the company, the stockholders, in addition to this semi-annual 5% dividend, are also entitled to the profits from non-participating or stock policies. (p 161.)

SURPLUS ACCUMULATIONS.

There is no limitation as to the amount of the surplus the stockholders may accumulate. If a large surplus has been accumulated there is nothing to prevent the stockholders changing the by-laws and paying larger dividends on their stock. The special surplus which the directors thus accumulate, is not protected in any way by the charter. It has no protection except in a by-law, which may be changed by the stockholders. It was conceded by the officers of this company that a statutory limitation of the amount the stockholders might receive as profits on their stock, would give a great feeling of security to the policy holders. The request for the enactment of such legislation is not contemplated by the officers of the company.

MANIPULATION OF THE COMPANY'S BUSINESS IN THE INTEREST OF THE STOCKHOLDERS.

In 1879, the company suffered a depreciation in the value of its assets, and under this power, it treated the surplus according to the judgment of the stockholders and directors. The officers charged one-fifth of such depreciation to the accumulated surplus held by the company to mature life rate endowment policies. (p 163.) The history of this transaction, briefly stated was as follows:

One N. W. Harris was manager of the insurance department at that time, as well as secretary. Under the by-laws he had charge of the matter of meeting this depreciation. The present by-laws confer the same power upon the company's manager of the insurance department. The life rate endowment policy in this company has all the characteristics of a deferred dividend policy in the Northwestern Mutual. The dividends are accumulated and are improved year by year by interest and dividends. In case of default, prior to maturity of the deferred dividend period, or in case of death, the policy holder forfeits his accumulated dividends. In making this reduction of the accumulated surplus of the life rate endowment policies, Mr. Harris acted under article 13 of the by-laws, defining the duties of the manager of insurance. The company was unable to fur-

nish any record of this transaction, except a mere memorandum upon a slip of paper, which reads as follows:

"May 1st, 1879, To cover amount charged to profit and loss account by reason of depreciated values, and also to equalize interest account of the past, 5% is deducted from the surplus deposit of the year 1879." (p 166.)

This was entered on the life rate endowment register, and afterwards changed to 8.6/10%. The total dividend fund of that year was reduced 8.6/10%. This 8.6/10% was calculated upon the reserve, plus the surplus of the life rate endowment policies. The surplus had been accumulating since 1877, so that in fact the life rate endowment policies were compelled to contribute about 20% of the accumulated surplus of the life rate endowment fund. (p 186.) There were no dividends paid upon the stock that year, but double dividends were paid thereafter, and as the result of the transaction, the life rate endowment policy holders were compelled to make good 20% of the depreciation, the annual dividend policy holders 8.6/10%, while the stockholders contributed nothing. (pp 169-170.)

No justification was or could be offered as to this discrimination between these two classes of policy holders. With respect to the discrimination in favor of the stockholders the explanation was offered on the part of the officers that the board of directors thought at that time that the passing of a dividend to the stockholders for that year was equivalent to compelling them to contribute 10% toward meeting this depreciation; that afterwards they thought the business justified restoring that dividend to the stockholders, but it has never occurred to the board of directors, that the business justified restoring to the life rate endowment surplus, the excessive amount which these policy holders contributed to meet the depreciation. In 1879, when the life rate endowment fund was thus diminished the company had \$116,000 in the general surplus. (pp 170-172.) And out of this surplus, a reduced annual dividend was paid to the annual dividend policy holders. The total depreciation made up from the life rate endowment fund was \$29,275. The total stock subscribed and paid for was \$100,000. From the organization of the company down to the present time, the stockholders have received in annual dividends \$100,000. (p 187.) The total re-

sult of this transaction in relation to this depreciation may be summed up as follows:

- First: A depreciation of the company's assets.
- Second: Taking from the life rate endowment policy holders 20% of the accumulations held by the company for the purpose of maturing these policies.
- Third: The payment to the annual dividend policy holders of only a portion of the dividends which they would have received had no depreciation taken place.
- Fourth: Deferring the payment of the stock dividends for that year, which were subsequently made up to the stockholders.
- Fifth: No return whatever to the life rate endowment policy holders who have made these excessive contributions to meet this depreciation.

There is no question of doubt that the charging of this large proportion of this depreciation to the endowment policy holders, was in direct violation of the contract stipulations of these policies. Each of these policies provides that the company agrees to pay to the insured the amount of said insurance, whenever the premiums paid on the policy and its equitable proportion of the company's profits combined, less its share of loss and expense, equals the amount of the policy. These policies were made to bear more than "their share of the loss." This depreciation in 1879 was general among insurance companies and resulted from the application of a more rigid rule by commissioners of insurance in the valuation of the companies' assets. The total depreciation was \$39,827. At this time the company changed from a 4.1/2% to a 4% basis, and this also contributed to the depreciation.

The life rate endowment of the Union Central, and the deferred dividend policies of the Northwestern Mutual, have many characteristics in common. The dividends are accumulated and retained in each case. In the endowment policy of the Union Central, these dividends are retained and improved for the purpose of maturing the policy. In the Northwestern, these dividends are retained and improved under the stipulation in the policy that in case there is no default in the payment of premium, and the policy holder lives to the end of the tontine period, they will then be paid and not otherwise. Under the

stipulations of the endowment policy, in case of default the accumulated surplus is forfeited to the general life rate endowment fund, while under the stipulated agreements of the Northwestern Mutual, in case of death or default, these accumulated dividends are distributed proportionally to the other policies of the class to which the forfeited policy belongs. Both companies keep a separate account with each policy. The Northwestern Mutual has an accumulated deferred dividend surplus of \$25,000,000; the Union Central an endowment surplus of \$5,206,503. The officers of both companies claim the right to use this accumulated surplus to maintain the solvency of the company or meet an emergency. The officers of the Union Central admitted that there was no charter or by-law provision, which would prevent the corporation from drawing upon this fund to increase the earnings of the stockholders. That would rest entirely with the stockholders. (p 166.)

There is still further similarity, admitted by the officers of both companies that both classes of policies were written by each company upon false estimates.

The estimates upon which these policies were written were misleading. The actual results have come far short of the estimate. Mr. Harcastle, the actuary of the Union Central, stated that the large increase in the cost of new business from 1880 to 1890, contributed in a considerable measure to defeat the realization of the estimate upon which these endowment policies were written. (p 35.)

Exhibits 11 and 12, pp 36a, 36b of testimony, show the method of keeping accounts with the endowment policies. The result of the company's method is to credit the first premium less expenses and interest upon the same, and charge for the mortality, which gives the credit at the end of the first year. Then add the second premium, less expenses, credit interest again, charge mortality again, and thus bring it out at the end of the second year. The exhibits presented show that the amount of net premium credited, after deducting first year's expenses is very much smaller on policies issued in 1902 than in 1892. The company in making up these accounts charge on the basis that the policy should make good its own initial expenses (p 37.) Upon a policy issued at age 35, in 1892, after deducting expense and mortality and crediting interest, the credit at the end of the first

year was \$1.06. The reserve required on this policy is \$11.48, a difference between the reserve and the credit of \$10.42. At the end of the second year, the reserve, according to the table used is \$23.34, the credit according to the system of bookkeeping is \$20.78, leaving a deficiency of \$2.56. At the end of the third year, the credit to the policy is \$42.86, the reserve \$35.59. This is the first period at which the policy shows a surplus. This deficiency of \$10.42 the first year, and \$2.56 the second year was made up out of the surplus of the other policyholders. (p 39.)

During this same period the company was writing annual dividend policies, and paid first dividends on the third annual payment of premium, although the company had an actual deficiency in the reserve on the policy. The first dividend on annual dividend policies is paid out of the surplus contributed by the older policy holders. (p 40.)

On the ordinary life policy issued in 1902, the account would stand as follows: At the end of the first year, reserve required \$11.76, credit to the policy \$1.30, deficiency \$10.46. At the end of the second year reserve required, \$23.91, credit \$23.33, deficiency 58 cts. At the end of the third year the reserve required is \$36.45, credit \$47.22. The dividend at the end of the second year is paid while there is really a deficiency in the reserve. (p 41.)

On a 10-payment life policy, 3.1/2% American Experience, age 35 at the end of the first year the reserve required is \$37.73, credit \$15.15, deficiency \$22.58. At the end of the second year, reserve required is \$77.01, credit \$64.40, deficiency \$12.61. At the end of the third year, reserve required is \$117.00, cash credit \$116.92, deficiency 8 cents. On this ten payment life policy there are dividends paid at the end of the second and third years. This deficiency came out of the surplus earnings of the old policy holders. Ten payment life policies do not catch up until the end of the fourth year. Other forms of policies catch up at the end of the third year. (p 43.) The reason for this is that the method of charging expense for the first year and beyond the first year is a percentage of the gross premium.

COMPANY'S PURCHASE OF ITS POLICIES.

This company sends out no notices of gains on life rate endowment policies, except upon request. (pp 174-175.) It has never granted to its policy holders a cash surrender value. It permits its policy holders to borrow upon the security of their policies, an amount almost equal to the reserve.

In 1879, Mr. Harris, the manager, taking advantage of the depressed condition of the company, sought out and purchased from the policy holders, for various considerations, ranging from 25% to 60% of the reserve, a large number of these policies. The reserve was thereby released and from this source, the company made considerable gains.

This transaction adds emphasis to the necessity of a law requiring all companies to give a fixed cash surrender value.

OTHER DISCRIMINATIONS IN FAVOR OF THE STOCKHOLDERS VERSUS THE POLICY HOLDERS.

This company began writing non-participating policies in the year 1893. By the charter of the company the stockholders in addition to the 5% semi-annual dividend, are entitled to all profits upon stock or non-participating policies.

During the year 1905, the actuary of the company made an investigation, to ascertain the amount of profits accumulated on account of these stock policies. (A copy of his report upon this subject is found, test. pp 80a to 80s inclusive.)

These stock policies were originally written at a low gross premium. In 1905 the premium was increased. The report and testimony of the actuary show a loss on non-participating policies, up to 1905, in the amount of \$95,000. The loss at some period prior, it is conceded must have been much larger. The actuary states that in a few years these non-participating policies, by their present and future earnings, will have eliminated this loss, and from that time forward will be a source of constant gain to the company. The participating policy holders, many of whom have passed out of the company, either by lapse or by death, have contributed to the loss on these stock policies. The entire loss was borne by the present and past participating policy holders. The stockholders have contributed nothing to meet this

loss, but when these stock policies become a source of profit to the company, such profits will be distributed to the stockholders.

The testimony shows that at every period in the history of this company, where the interests of the policyholders and those of the stockholders came in conflict, the policy holders suffered.

These facts accentuate the wisdom of requiring all stock life insurance companies, at a certain period and upon specified conditions, to become mutual companies, by a surrender of the stock of the corporation.

STOCK COMPANIES AND GENERAL SURPLUS.

Our investigation discloses the fact that a number of stock companies transacting business in this state have accumulated a large general surplus. This surplus is paraded before the prospective policy holder as an argument in favor of the economy and solvency of the company. The policy holder is led to understand that this surplus belongs to the policy holders.

The Union Central, in excess of the reserves required by law has such surplus in an amount exceeding two million dollars. The Equitable has a similar surplus of seventy million dollars. These stock companies retain the right to return to the policy holders in the form of dividends, only such sums as the judgment of the officers will recommend. We are of the opinion that the retention of two million dollars surplus by the Union Central, for the purpose of securing the stability of the company, is not excessive. We are not, however, convinced, that the retention of seventy million dollars of surplus, is essential to the safety of any company doing business in this state.

Under the discretionary powers conferred upon the officers of these stock companies by their charters and contract obligations, they may distribute their general surplus, or retain the same at their will, and we are advised by counsel for the committee, that if such stock companies, with ample reserve, should reinsure or wind up their business, this immense surplus would not ordinarily be distributed among the policy holders, and under the law may be retained by, and distributed among the stockholders.

It was conceded upon this investigation that the officers of the Phoenix Mutual Insurance company, have increased its stock dividends from 6% to 8% to 12% and then to 24%. We are

not aware of any limitations which would prohibit the officers of the Union Central from amending their by-laws and increasing the annual stock dividends. In fact it was claimed by the officers of this company, that they had the power to so change the by-laws as to give very small dividends to the policy holders, very large dividends to the stockholders, and still comply with the terms of their policies. (p 196.)

As we have pointed out in the report upon the Northwestern Mutual Life Insurance company, this general surplus is accumulated through excessive premium charges. It is all contributed by the policy holders; but the respective proportional rights in this surplus of the stockholders and policy holders remain undetermined, and the stockholders are silent as to their attitude in relation thereto.

It appears that in May last, in answer to a question from an insurance magazine, *The Western Underwriter*, as to the attitude of the stockholders of the Union Central toward the general surplus of the company, the secretary answered, "The stockholders of this company do not claim any interest in the surplus of the company, as reported in the last annual statement."

The officer who sent this communication, stated upon the witness stand, that by this reply he meant that there had never been any demand of that kind, or claim made. (p 211.) He also stated that the subject matter of the respective rights of the stockholders and policy holders in the general surplus had been discussed by the stockholders in a general way, but no action taken thereon.

It appears from the testimony that the matter of the respective rights of the policy holders and the stock holders to this general surplus, has been under discussion by the officers of the Union Central.

At a meeting of the board held on March 25th, 1905, Mr. John M. Pattison, then president of the company, offered an amendment to the by-laws of the company. The purpose of this amendment was to eliminate any question that might hereafter arise as to the stockholders having other profits in excess of the ten per cent annual dividend provided by the charter. Mr. Pattison favored this proposition for years, and desired that the relations of the stockholders and policy holders to the surplus of the company, should be clearly and definitely defined. This

amendment was opposed by some of the stockholders. The motion was never carried. It was simply referred to the company's counsel, and a resolution adopted directing the actuary to investigate the gains and losses upon non-participating stock policies.

There can be no doubt of the legal right of the stockholders of any insurance company, to clearly and definitely determine, at a stockholders' meeting, the respective rights of the policy holders and stockholders in this surplus.

In view of existing conditions, and as a protection to future policy holders in stock companies, we recommend the enactment of a law requiring that all participating policies issued by stock insurance companies to residents of this state, shall contain the following provision:

"This policy is written upon the participating plan and beginning with the end of _____ year, will participate in all the remaining profits of the company, after deducting therefrom an amount not to exceed eight per cent on the par value of said paid up stock of said company, which said amount may be paid to the stockholders as annual dividends."

We also recommend the enactment of a law providing that no stock company with outstanding participating policies, shall be licensed to transact business in this state, until such company shall definitely and legally determine the rights of such policy holders in the accumulated general surplus of such company.

STOCK AND STOCKHOLDERS.

One of the by-laws of this company provides that transfers of stock can be made only by vote of the board of directors. (Test. p 452.)

The purpose of this by-law was to prevent the stock from passing into the hands of persons who might be inimical to the company's interests. (p 453.)

The original by-laws limited the holding of stock by one individual to \$5,000. This by-law was adopted to prevent any individual stockholder from gaining control of the corporation. (p 456.)

In February, 1873, at a directors' meeting, this by-law was

amended so as to permit the individual stockholders to hold stock in an amount up to \$10,000. In 1877, this by-law was repealed. (pp 460-62.)

Since that time the stock has been gravitating into the hands of a few families. The Pattison family, and those who were related to the former president, at the time of the investigation, held 2412 shares of stock. The Pattison family, the Clark family, the Rust family, the Sage family and the Wright family, altogether owned 4301.¼ shares of stock, representing \$80,625 of the \$100,000 capital stock. These families, at the time of the investigation furnished the following officers:

Pattison, president, Clark, treasurer, two Davis', medical directors, one Rust, vice-president, one Rust, director, one Rust, general agent. John D. Sage, assistant secretary. There is no reason to doubt that this distribution of offices among these different families has maintained harmony. (p 466.)

DIVIDENDS.

The officers of this company consider it better to have a graduated scale of dividends, increasing from year to year, rather than have one going up one year and down the next. For this purpose the company keeps on hand a contingent fund, keeping the dividends increasing year by year, relatively. This is based on the belief that the average policy holder is much better pleased if he comes in to pay his premium and finds a slight increase than if there should be a decrease in the dividend. In other stock companies, the officers report the condition just as it is. If gains have been made they report them. If loss has been sustained, they report the loss. (p 529.) The payment of gradually increasing dividends to the policy holders, it is claimed, enables the company to sell policies, and keeps the policy holders in better frame of mind. (p 530.)

It is conceded that the policy holder does not receive, in the earlier years, the dividends that he ought in fact to receive, and if a policy holder should die during the first five years of the life of his policy, he would not have received his full share of dividends. (pp 531-532.) He forfeits a portion of the overcharge, in case he dies within that period. (p 533.)

In the year 1905, there was a gain in the general surplus of

\$600,000. This came from mortality gains and interest, but was not distributed. (p 534.)

POLICY LOANS.

This company accepts policy holders' notes for premiums due. These premium notes have been much harsher in the past than they are at the present time. Under the present form, if a policy holder pays two premiums and gives his note for the third, but fails to pay the note at maturity, his policy with all the conditions for surrender and continuance as paid up term insurance, becomes null and void, without any notice. (p 537.) The form of premium note subsequent to the fourth premium, contains this provision: "Should this note with interest, not be paid when due, it will be held as a lien against the policy together with the balance of the year's premium, if any, until the expiration of the current policy year, when if there be no other indebtedness due, the policy shall be deemed to have lapsed on the last policy anniversary to which the premiums have been fully paid in cash." (p 537.)

It was conceded that under this form of premium note, if a person holds a policy, and pays six premiums in cash when due, and when the seventh premium falls due, a portion of that premium is set aside as a reserve on that policy. If on the sixth anniversary, when the seventh falls due, he should pay \$20 in cash and give his note for \$10 (where the premium is \$30) and then should neglect to pay the note at maturity, under this agreement the policy holder would lose \$20. (pp 538-39-40.)

In the case just stated the company adjusts on the sixth reserve instead of the seventh. (p 541.) This charge that is thus made is in the nature of a penalty on the man who leaves the company. (p 542.)

Where a policy holder has paid six premiums, say of \$30 each, then pays \$20 in cash and gives a note for \$10, and fails to pay the note, the adjustment with the company is made on the sixth reserve instead of the seventh. In that case his insurance would have been carried on to the end of the seventh year, and if he failed to pay his note, the extended insurance would have been continued, under the provisions of the policy, as of the sixth year. The policy holder is penalized to the extent of \$20. (p 548.)

In case of such adjustment this company takes \$10, the amount due on the note from the reserve, forfeits the \$20 and uses the balance of the sixth year's reserve in determining the extended insurance.

Under the practice of this company, if it had taken a note for the seventh premium, it would give an extension of another year and put both premiums into one note. If the policy holder should fail to pay the principal or interest on the new note the company would use the sixth year's reserve in the adjustment of the extended insurance. If however, instead of giving these two premium notes, the policy holder would make a loan against his policy for \$60, the amount of the two premiums, and should fail to pay that note and interest, the company would adjust on the eighth reserve, after deducting the amount of the indebtedness from said eighth reserve. (p 720.)

POLICY LOANS. DISCRIMINATION.

This company grants to its policy holders the privilege of making loans upon the security of the company's policies, and the testimony shows that the company has discriminated against its policy holders in the rate of interest charged: that policy holders in Wisconsin were charged 8% while policy holders in Michigan were charged but 6%; the policy holders residing in Illinois were charged 7%, while those residing in Indiana were charged but 5%. Since the investigation the company has adopted uniform rates on all policy loans.

The only justification for this character of discrimination is that it is the purpose of the company to get out of the policy loans, the highest rate of interest possible. The company has approximately one-fourth of its assets invested in policy loans. The officers of the company stated that they could see no objection to an automatic loan provision in the policy. (p 765.)

The testimony of the officers of this company was that the same arguments which are now being made against automatic loans were made by the best actuaries against a cash surrender value, when the companies first granted this privilege. The prophecies of the actuaries did not prove true. Experience shows that the policy holder will, as a rule, protect his life insurance above anything else, in times of financial stress. (p 769.)

In making these loans the policy is deposited with the company. Under the old form of note in use up to 1904, in case of default in the payment of a policy loan, the policy holder loses the difference between the debt and the reserve, together with the right of extended insurance. If a policy holder makes a loan on a paid up policy and defaults he will forfeit his policy. (p 788.)

The loan agreement provides that in case of default the company shall sell the policy at either public or private sale and at such sale the company may become the purchaser.

The present loan agreement provides in substance that in case the policy is sold for a sum in excess of the indebtedness, the residue shall be paid to the policy holder. Under the practice of the company, this provision is misleading to the policy holder making the loan, and it is understood that there will be no balance, as the company never pays more for the policy than the amount of the indebtedness. The policy is always purchased at the amount of the indebtedness, irrespective of the amount of surplus or the amount of accumulations. (p 810.)

It is furthermore represented to the policy holder, that the notes will be sold at public sale and to the highest bidder. In the practice of the company, they are sold at private sale. These policies, upon default of payment of principal or interest upon a loan, are sold in a private room of the home office. The treasurer of the company, who sells for the company, is the officer who purchases for the company. If any stranger desired to purchase such policies, he would not be permitted to ascertain the amount of the note and accumulations on the policy. (p 813.)

These sales of policies take place on an average of once a month. The company never pays more than the amount of the indebtedness. Under this practice, if the reserve were \$1,000 and the indebtedness \$500, the policy is purchased by the company at the sum of \$500. The company gives no cash surrender value. This excludes all competition at such sales.

Prior to the sale of such policies, the company always notifies the insured and beneficiary that the policy will be sold unless the indebtedness is paid on or before a fixed date. Such notice contains a statement of the amount of the indebtedness, but gives no information as to the amount of the reserve. Upon all such sales, the difference between the reserve and the amount of the indebtedness is turned into the general surplus of the company.

Exhibit 68, (test. p 823), covers the policy sales of July 31st, 1905. At this sale 30 policies were disposed of. This is an average monthly sale. The table shows the indebtedness, the reserve and loss to the policy holder. (p 825.)

The following illustrates the gains to the company and loss to the policy holders on sales made July 31, 1905:

Policy No.	Name.	Indebt'dness	Reserve.	Loss.
171284	Edward D. Flynn.....	\$218	\$276	\$58
19164	Harry J. Falls	589	650	61
80631	John H. Bickett.....	1,892	2,008	123
106085	Hugo Bischoff	830	970	140
132008	John Schink.....	215	482	267

In case of a loan made upon a life rate endowment policy both the accumulated surplus and the reserve are forfeited by sale.

A large number of policies are lapsed and sold each year. In 1905, the total gains on lapsed policies was \$90,000. (p 759.)

The officers of the company conceded that there would be no objection to an automatic loan provision by the terms of which premiums and loan indebtedness should be automatically charged as a policy loan, until such premiums and other indebtedness exhaust the reserve. (p 765.)

It is not necessary to the solvency of any company to have gains from mortality. Such automatic clause would not affect the solvency of the company. (p. 767.)

POLICY CONDITIONS AND STIPULATIONS.

By the terms of all policies in this company, the representations of the insured are warranties, and any mis-statement whether intentional or otherwise may be insisted upon as a defense by the company.

In connection with the provision extending to the policy holder the right to make loans upon the security of his policy, it is stipulated in the policy as follows:

"All notes with their conditions, which may be given for premiums or loans on the security of this policy, are hereby made a part of this contract of insurance." (p 861.)

The directors retain the power to make any such conditions or loan agreement as they deem proper. The loan privilege is considered a valuable one by the policy holders. (p 865.)

It was conceded that under this policy provision the directors of the company may render this privilege nugatory, by inserting in the loan agreement conditions of such character that a policy holder would not risk his policy by submitting to them. (p 865.)

Under the provisions of the company's policies making any future stipulations with regard to policy loans, a part of the contract of insurance, the directors retain the power to change the character of the contract of insurance from time to time, in case the policy holder desires to exercise the privilege of making a loan upon the security of his policy.

All of the company's policies provide that if the insured without the consent of the company, at any time becomes the manager of or engaged in a liquor business, saloon or bar, the policy shall be null and void, except for the reserve value of the policy, and in case of avoidance, the reserve value only, according to the American Experience Table of Mortality, with $3\frac{1}{2}\%$ interest shall be paid on the policy. Saloon keepers and those engaged in the liquor traffic are considered bad risks and the company seldom gives consent to one of its policy holders engaging in this hazardous occupation. (p 866.)

RESERVE DEFINED.

The reserve on a policy at any time, is the excess of the present value of the company's obligations to the insured, over the present value of the insured's obligations to the company. (p 867.) The present value of the policy holder's obligation to the company can be estimated at any time. This is done when the company writes single premium policies.

For example, take a \$10,000 policy, twenty payment life, issued at age 35, Am. Ex. Table of Mortality, $3\frac{1}{2}\%$ interest. After ten years, the obligation of the company to the insured is \$1,560. This is the value of a single premium for \$10,000 of insurance at age 45. The obligation of the insured to the company consists of the future net premiums which he promises to pay during the next ten years, at age 35, to-wit \$274 per annum. The reserve would be \$2,321.90. At every stage in the life of a policy, the company is under certain obligations to the policy holder, and the policy holder under certain obligations to the company. These obligations can be clearly ascertained. (p 868.)

This principle is invoked in an adjustment under the company's policies, when a policy holder voids his policy by engaging in the liquor business, and in off-setting the present value of the obligation of the company against the obligation of the policy holder, the reserve is the balance. (p 868.)

A twenty payment life rate endowment policy, and a twenty payment guarantee policy, both issued at age 35 for \$10,000, if adjusted at the end of ten years, according to the principle of off-setting the obligation of the company against the obligations of the insured, both policy holders would receive the same amount, the premium being the same, the reserve would be the same. Under the stipulations in both these policies, if both policy holders engaged in the liquor business at the end of ten years each would receive the full reserve \$2,191.80; but if both policy holders were compelled to surrender their policies, one would receive a \$5,000 paid up policy, and the other \$3,117. In case of settlement by giving extended insurance, one would receive \$10,000 insurance for 12 years, 310 days, and the other \$10,000 for 6 years, 146 days. (p 870.)

The effect of this stipulation is equivalent to giving to a policy holder who engages in the liquor business a cash surrender value, and denying it to policy holders who are engaged in other occupations.

This company refuses to give to its policy holders a cash surrender value, because of the tendency of policy holders to surrender up their insurance in return for such surrender value. Upon the other hand they grant to their policy holders a loan value almost equal in amount to the entire reserve, and a policy holder who desires to surrender can do so by borrowing upon the security of his policy, and refusing to pay the loan.

PRACTICE AS TO PAYMENT OF DIVIDENDS.

The Union Central, and many other companies pay two post-mortem dividends. These are paid to make up for a dividend in the early life of the policy. The Northwestern pays a double dividend at the end of the fifth year, for a like purpose.

The practice of paying a dividend in the early years of the policy, as for example, the fifth year, is more just than that of paying two post-mortem dividends, for the reason that if the

policy holder should carry his policy to the sixth year, and have received a double dividend at the end of the fifth year, he would have received all the dividends coming to him by the terms of his contract; whereas, under the other practice, if a policy holder carried a policy for fifteen years and then defaulted, he would be deprived of a dividend to which he was entitled in the early life of the policy.

PROVISIONS FOR PAID UP INSURANCE.

By the terms of this company's contracts it is provided that dividends may be used in purchasing, without re-examination paid up additions to the policy, payable with the policy. The policy stipulates that these paid up additions are non-forfeitable, and share in the profits of the company, so long as no default is made in the payment of premiums. This additional insurance is fully paid, and the insured receives a certificate or statement, showing the amount of such additional insurance. In some instances this amounts to from \$1,500 to \$2,500 and upwards. In case of default and lapse of the original policy, this paid up insurance is likewise forfeited. The policy holder is not authorized to turn in this paid up insurance for cash value, but it is stipulated in the policy that it may be used to pay premiums. Under the terms of the policy, the insured is not entitled to receive cash values upon these paid up additions, although it was asserted by the officers of the company on examination, that they made it a practice to permit policy holders to convert these paid up additions into cash, for other purposes than the payment of premiums. (p 890.)

GENERAL SURPLUS AND RESERVES.

Year	Reserve	General Surplus
1900	\$22,315,481.....	\$ 488,985
1901	25,170,222.....	836,915
1902	28,355,985.....	1,186,665
1905	40,436,928.....	2,594,434

It was admitted by the officers of the company that there should be a proportion between the general surplus and the reserves of an insurance company; that 4% is amply sufficient with a company

having investments such as are held by the Union Central. If it were a company that had a different class of investments, fluctuating railroad stocks and bonds, that 4% would not be sufficient. 4% of the reserve for the year 1905 was \$1,600,000. The officers admitted that this would be a sufficient general surplus but that in fact they had on hand \$2,591,434, or 6.4/10% of the reserve. In other words, that they retained about \$1,000,000 of the general surplus in 1905 that could have been distributed to the policy holders without affecting the solvency or safety of the company; that the officers of the company would, however, prefer to keep about 5% of the reserve as a matter of absolute safety, (p 893) and that from 4% to 5% would be sufficient for this purpose. (p 895.)

A proper limitation placed upon the contingent surplus would have three effects:

First. It would place a check on extravagance.

Second. It would stimulate better investments.

Third. It would establish a rule for determining the aggregate of dividends that would be distributed.

INVESTMENT AND TAX EXPENSES.

Investment expenses for 1905.....	\$226,673
Taxes on real estate.....	6,421
Fees and taxes upon premiums.....	140,214
	<hr/>
Total	\$373,308
	(p 549)
Gross assets for 1905.....	\$19,756,960
Invested assets, 1905.....	47,400,517

Total of all investment expenses and all taxes and all fees, is less than 1% on the invested assets. (p 550.) If this 1% were deducted from the investment earnings, it would leave ample margin between the net returns and the rate required.

If the investment expenses were provided for in this way, including taxes, the insurance expenses would be provided for out of the loading. (p 551.)

The amount at risk in any insurance company, is the difference between the face of the policy and the reserve. That is the amount for which a charge is made in fixing the so-called cost of

insurance, under every form of policy. (p 552.) The cost of insurance represents the actual amount of insurance a man has, and is strictly proportioned to the insurance in every case.

DIFFERENCE IN COST OF INSURANCE.

On a ten-year endowment policy, age 35, non-participating, amount \$1,000, the gross premium is \$96.22, net premium \$87.02 and the loading \$9.20.

On a ten-year term policy, age 35, non-participating, \$1,000, the gross premium is \$13.86, net premium \$8.95 and the loading \$4.91.

The amount at risk on the 10-year endowment policy greatly lessens during the term of the policy, until at the end of the fifth year it is approximately \$500, and during the last year of the policy, dwindles to nothing. (pp 553-54.)

The amount at risk on a ten-year endowment policy averages throughout the term \$500. This is all the insurance which the company carries. (p 535.) The loading collected for expenses on this ten-year endowment policy is \$9.20 per year, or equal to \$18.40 for a full thousand dollars at risk. In the case of the ten-year term policy, the company carries practically the full thousand dollars each year throughout the term, and makes a charge each year throughout the term for expenses of \$4.91, as compared with \$18.40, in case of the ten-year endowment.

The officers of this company were unable to state any particular justification for this extra expense, upon the most expensive form of policy issued by the companies. They conceded that the system of loading in use in this country is one which the actuaries generally agree, could be adjusted in many cases and made more equitable on different forms of policies. (pp 556-557.)

The difference in the loading collected annually on each of these two forms of policies is \$180 on one and \$19.10 on the other. These differences are common to all companies. People who take out these high priced policies do not understand this difference (p 558) they do not take time to consider it, and if they did consider it, they would not be able to determine the difference. (p 559.)

It was conceded by Mr. Marshall, an actuary for many years, and connected with life insurance for over a quarter of a century,

that provisions for expenses throughout the history of the policy, could be worked down to its present value and collected in the premium just the same as premiums are collected now. If there were a reserve for expenses, the total reserve would be much larger, and the amount at risk would be less. This would require new tables, but that is practicable. (p 561.)

The actual insurance carried by the company is the amount at risk, the actual insurance which the insured has is likewise the amount at risk, and it is fair and just that the charges made to a man for carrying that insurance, should be proportional to the the amount at risk, and it is entirely practicable, if the amount to be charged per thousand of insurance at each age is fixed, to work out a set of tables on this basis. That is done right along. (p 565.) Starting out with the proposition that the value of \$1,000 of insurance at each attained age is a certain amount, which value includes the expected mortality according to the table, and the expected expense of taking care of that insurance, assuming also a certain rate of interest and certain ratio of expense, the rest can be worked out on that basis. That is nothing more than finding the present value of the sum of this expected mortality and expected expense for each year during the history of the policy, and the apportioning them as an annuity throughout the period at which the premium is to be paid. This can be done. (p 566.) This result would encourage the purchase of short premium paying policies, and eliminate the discrimination which at present exists against the policy holder who buys an endowment policy. (p 567.)

COMMISSIONS UNFAIRLY CHARGED ON DIFFERENT POLICIES.

The agent's commission is ascertained by a certain percentage or commission on the amount of the premium. The loading on high premium policies was conceded by the officers of this company to be manifestly unfair, and it would follow that it is unfair to pay commissions on practically the same plan on which loadings are estimated.

In case of a ten-year endowment policy the amount at risk averages but one-half as much as in a ten-year term policy; yet the agent receives for his services in securing the ten-year term policy of \$1,000 worth of insurance, but \$4.15 while for securing

\$1,000 worth of insurance on the endowment plan, he receives \$19.20.

There is no justification for this discrimination, except that it is the universal practice of all companies.

PERCENTAGE OF INCREASE OF DIFFERENT CLASSES OF POLICIES IN
THIS COMPANY DURING THE PAST TEN YEARS.

Total increase of all policies.....	178%
Increase of endowment policies.....	270%
Increase of whole life policies.....	170%

(p 581)

The average solicitor would not be able to inform the policy holder how much of his premium goes into expense charge. With respect to the statement to the policy holder, as to the amount of his premiums which are used for expense charges, mortality and reserve, it was conceded that such a table could be worked out, and the reserve adjusted in such manner as the person making the table desired; that the larger charge to meet the initial expense, compared with subsequent charges during the later years of the policy could, under this plan, be made out of the first year's premiums. This charge is now being made by some companies in the form of preliminary term. The real objection to the preliminary term is that a high rate is charged for one year's insurance in a ten year endowment policy, for instance, and a reasonable rate in the ten year term policy (p 585). This is a discrimination against the man who takes high priced insurance.

If the initial expenses were made three times the cost of the insurance the first year of the policy, or some similar multiple of the cost of insurance, and the initial cost be proportioned equally in each case, upon the cost of insurance, there would be no discrimination against different classes of policies. It is entirely practicable to provide a table embodying that idea. (p 588.)

This company is opposed to what is known as the select and ultimate method (p 590); but favors the modified preliminary term.

In life insurance the part of the premium which goes into the reserve, is equivalent to a deposit made by the policy holder to mature his policy. There can be no valid reason given why the

policy holder should not know the expense of caring for these deposits. (p 591.)

FORFEITURE OF RESERVE DURING FIRST TWO YEARS.

The officers of this company claim that this is justified by the large initial expense. This is the chief and practically the only defense of such action.

DISCRIMINATION IN FORFEITURES.

Taking the same age, same amount, the policy holder who forfeits a ten year endowment policy the first year, forfeits about four times as much as one who holds the twenty payment life policy.

The only justification for a forfeiture or surrender charge is the necessity of reimbursing the company for initial expenses. If each policy holder were charged and required to pay the initial expenses, there would be no justification for forfeitures or cash surrender charges. (p 626.)

COST OF INSURANCE AMONG COMPANIES THEMSELVES.

Where the Union Central takes a policy for \$100,000 and re-insures for \$50,000 in another company, it pays the second company the cost of insurance for the year and nothing for expenses. The reinsuring companies are willing to carry that risk at 4% or 5% margin above the expected mortality and its gain on loadings. (p. 609.)

GENERAL AGENCY SYSTEM.

This company transacts its business through the general agency system. The general agent, through his arrangements with the sub-agents, gets about one-third of all renewal fees. In 1905, one of the general agents received,

First year's commissions.....	\$21,389
Renewal commissions.....	25,313

Assuming that he paid all of the first year's commissions to the agent, the business netted him about \$8,000.

In addition to the \$8,000 he received \$3,000 salary. He also

received for clerk hire \$3,381.69; for postage, telegrams, etc., \$1,596 and traveling expenses \$670. Total \$16,653.69. (p 239.)

It was conceded that the duties of the general agent were no more important or onerous, than the duties of the superintendent who received but \$8,000 per annum.

The system of putting agents upon a salary has been tried by some companies, and it appears to be working to their satisfaction. (241.)

Speaking of insurance in general, the increased cost of insurance for the past ten years has resulted from high commissions. In the experience of the Union Central, the new business of 1905 was 181% of the amount of loading collected on new premiums. The agent above referred to received in 1896 first year's commissions, \$18,139. In 1905, \$21,389. Thus showing that the agent wrote in 1905, only about \$3,000 more business than he did in 1896. At the same time, his renewals in 1896 were \$10,044.10, while his renewals in 1905 were \$25,313. His increased usefulness in securing business for the company is represented by an excess of \$3,000 of new insurance, while his compensation at the later date was about 2½ times as much as at the former date. This indicates that under this system the usefulness of an agent to the company in securing new business may be at a stand-still or even decrease, while his renewal commissions have greatly increased.

A second agent of this company received,

In 1896, first year's commissions.....	\$ 9,106
In 1905, first year's commissions.....	17,210
In 1896, renewal commissions.....	10,767
In 1905, renewal commissions.....	23,905

A report upon a third agent shows,

In 1896, first year's commissions.....	4,962
In 1905, first year's commissions.....	4,111
In 1896, renewal commissions.....	5,163
In 1905, renewal commissions.....	8,650

A report of the other agents of this company shows a similar condition. (pp 249-250.)

This company pays a renewal commission of $7\frac{1}{2}\%$ upon all forms of policies, during the continuance of the general agent's contracts, and 1% on all premiums collected on business done by other agents. (See copies of contract, pp 260-262.)

FIRST YEAR'S COMMISSIONS.

This company pays, as first year's commissions on different forms of policies from 25% to 50% of the premiums on participating policies, and from 20% to 40% on non-participating policies. On single premium policies, either life or endowment 3% (p 264). These contracts are usually made from ten to fifteen years. All the company's contracts with agents contain a provision that in case of the agent's death, the company will pay to his estate all renewal commissions for three years.

HIGH COMMISSIONS.

Some companies use the entire first two year's premiums in writing new business. Some run as high as 331% ; one company 372% , and one 467% of the margin or gain from mortality and loadings.

THE GAINS FROM LAPSES AND SURRENDERS FOR PAST FIVE YEARS ARE AS FOLLOWS:

1901.....	\$ 93,049
1902.....	63,648
1903.....	68,015
1904.....	85,552
1905.....	115,111

(p 322)

Under the practice of the company a policy holder who does not carry his policy through the third year, and who gives a premium note, if he fails to pay his note, has an advantage over the policy holder who pays his second premium. If both lapse at the end of the third year, the policy holder who gives his note for the third premium is practically carried through the year for nothing

The taking of premium notes, during a period when the company is not paying cash surrender values, results in an injustice to those who pay their premiums in cash, as against those who give premium notes.

The number of lapses in this company before the third annual premium, is in excess of 34% of the policies written for any given year.

Where premium notes are taken, and default is made in the payment, no effort is made to collect them. Upon such default the policy is lapsed. During the life of the premium note, the other policy holders are carrying this risk. If a party dies after giving a premium note and before maturity thereof, in settlement the note is deducted from the face of the policy. (p 328.)

The amount of premium notes defaulted in 1903 was \$218,925. The amount of payments upon policies less than three years old was \$247,584. (p 322.)

LIFE RATE ENDOWMENT POLICIES.

It was conceded by the actuary of this company that the life rate endowment policies were written upon false estimates. It was also conceded that the loading in the ten year endowment policies of this company was nearly three times the amount of the loading of the ordinary life. In point of fact, the loading itself is very nearly equal to the whole premium on the ordinary life policy. The effect is that the policy holders holding these high premium policies are discriminated against in being charged—

First. A higher percentage in order to pay agent's commission; and

Second. A higher expense charge throughout the life of the policy.

It was also conceded that dividends have entirely disappeared on paid up policies in some companies, and admitted that this result would not have been had the loading been reserved for the policy at the end of the premium paying period. (pp 62-64.)

The actuary stated, that the reason why a dividend is declared at the end of the first year when none has been earned is to please

the policy holders. Other companies do it, and their competitors are compelled to do likewise. These dividends are taken from the surplus of the other policy holders. There is no justification of the practice except that all companies are compelled to pay these dividends in order to meet the competition of companies which have taken the lead in paying these early dividends. (p 76.) The average policy holder has no knowledge of the fact that dividends are being paid before they are earned. (p 76.)

SALARIES OF OFFICERS AND INCREASE THEREOF.

President, 1891, \$8,000; 1891, 1895, 1896, 1897, \$11,000; 1898, \$12,000; 1899, \$15,000; 1903, \$18,000; 1905, \$25,000. (p 231.)

Vice-president, ninety years of age, 1891, \$1,200; 1892 to 1905, \$2,000.

Secretary and actuary, 1891, \$1,500; 1893, raised to \$6,000; 1898, raised to \$7,500; 1902, raised to \$9,000; 1904, raised to \$12,000. (p 233.)

Cashier, 1891, \$3,000; 1894, \$3,500; 1900, \$4,000; 1901, \$3,500.

Medical director, 1891, \$6,000; assistant medical director, 1891, \$1,200; medical director, 1892, \$6,000; assistant, 1892, \$1,500; medical director, 1893, \$3,105; assistant, 1893, \$2,500; 1894, medical director, \$3,000; assistant, \$3,000; 1899, medical director, \$4,000; assistant \$4,000; 1905, medical director and assistant each \$4,000.

Superintendent of agencies, 1891, \$2,500; 1893, \$2,700; 1894, \$3,000; 1897, \$4,000; 1901, \$5,000; 1905, \$6,000.

The largest stockholders in this company are the officers; they fix and control their own salaries. It is claimed by the officers of this company that the salaries are particularly moderate compared with other companies of its size; that the amount of salaries should bear some proportion to the amount of assets and the business done by the company.

It was conceded, however, that this company, with about $\frac{1}{4}$ the assets of the Northwestern Mutual, was paying precisely the same salary to its president, but it was contended there may not

always be an actual basis or standard of comparison between the salaries paid to corresponding officers in different companies, because these officers may not have the same duties precisely in the two companies; that the way to test the question is by determining the gross amount paid for the whole executive management of the business of the two companies compared.

It was conceded that throughout the connection of each officer with the company, he was obligated for the compensation provided, to give his entire time and best efforts to promote the interests of the company. In other words, that the president of this company was under no greater obligation to the company when he received \$25,000 per annum, than he was when he received \$8,000 per annum.

The increase of this company's outstanding insurance, from 1902 to 1905 was 9.17% and the assets of the company increased during the same period 28.12%. The increase of the president's salary was 66% during the same period. The secretary's salary was increased 60% and the treasurer's salary was increased 60% for the same period. (pp 283-84.)

The salaries of all the other officers were increased during these three years 16.41%. The total increase of the company's business during this period was 12.42%.

COMPANY'S INVESTMENTS.

The officers of this company assert that it is their duty to exercise as much effort in the line of investments as they do in the line of getting new business (p 903), and conclude from their experience that there is just as much competition today for farm loans as there is for life insurance. (pp 903-909.)

The company has no investments in railroad or municipal bonds. The laws of Ohio prohibit the company from investing in stocks or bonds of every kind or character, except government or municipal bonds. The company is confined practically to mortgage loans on real estate, and loans on the company's policies. The company has at present \$40,000,000 loaned on real estate.

The following table shows the mortgage loans of this com-

pany from 1867 to 1905, and the percentage of same to the total amount of assets invested in that class of securities:

Year.	Amount.	Percentage.
1867		
1868	\$33,827 41	20
1869	35,528 11	16
1870	49,234 77	17
1871	179,220 00	27
1872	308,363 00	26
1873	436,151 00	43
1874	455,898 00	40
1875	610,649 00	47
1876	813,593 00	58
1877	877,893 00	60
1878	923,058 00	61
1879	1,027,456 00	67
1880	1,070,015 00	66
1881	1,196,313 00	69
1882	1,247,785 00	67
1883	1,412,678 00	70
1884	1,606,109 00	69
1885	1,933,565 00	71
1886	2,092,399 00	65
1887	2,641,268 00	69
1888	3,033,059 00	66
1889	3,837,382 00	67
1890	4,304,574 00	64
1891	5,690,386 00	71
1892	7,043,327 00	77
1893	8,096,056 00	73
1894	9,398,202 00	73
1895	11,028,702 00	75
1896	12,234,977 00	74
1897	13,455,354 00	71
1898	15,468,620 00	73
1899	17,497,723 00	73
1900	20,538,620 00	77
1901	23,276,577 00	77
1902	27,260,063 00	80
1903	31,054,234 00	80
1904	35,442,335 00	80
1905	40,317,152 00	81

The following table shows the mean rate of interest earned on mortgage loans, for the following years:

Year.	Percentage.
1868	4.5
1869	8.16
1870	7.11
1871	7.49
1872	8.41
1873	6.85
1874	7.
1875	5.45
1876	5.99
1877	6.24
1878	6.71
1879	8.22
1880	9.81
1881	8.95
1882	7.19
1883	6.7
1884	7.17
1885	7.26
1886	7.79

Year.	Percentage.
1887	6.92
1888	7.08
1889	6.13
1890	6.51
1891	6.84
1892	6.36
1893	6.88
1894	6.92
1895	7.
1896	7.04
1897	7.11
1898	6.63
1899	6.45
1900	6.08
1901	6.02
1902	5.93
1903	6.05
1904	5.89
1905	5.91

RATE OF COMMISSION PAID TO LOAN AGENTS.

The company, it was stated, has always endeavored to select men of good character and financial responsibility, permanently located in the territory, and men who have a knowledge of agricultural lands in the territory. These representatives are compensated in a variety of ways, some are employed on a salary, some part salary and part commission, some exclusively commission, some on commission and expenses, some on exclusively commission and some fees, expenses of travel, legal expenses, etc., the rule being to make the expense as small as possible. The rate of commission is a matter between the company and the agent affected. No fixed rate applies to all territory. The rate of commission depends upon the rate of interest received in the locality. The highest rate of commission paid by the company is 4.¼%. This commission is paid in parts of Texas and some parts of Kansas. The rate of interest secured in the territory is from 7% to 8% in Texas; from 6% to 6½% in Kansas. This is simply an initial commission for securing the loan. It is not an annual proposition. (p 909.)

The loans usually run for ten years. They are all written on the ten year term, so that the total interest at 8% would be 80% and deducting 4.¼% commission would leave 75.¾% for the entire term of ten years or an average of about 7.5% per annum. The company has in the United States approximately 100 loan agents. In some states more than one, and in some none at all. After paying all investment expenses, the net rate of interest

earned by the company from 1890 to 1905 on its total investments is shown by the following table:

INTEREST RATES.

Year.	Gross.	Net.
	Per cent.	Per cent.
1890	6.163	6.025
1891	6.613	6.421
1902	6.115	6.152
1893	6.656	6.481
1894	6.786	6.329
1895	6.714	6.119
1896	6.844	6.313
1897	6.822	6.120
1898	6.924	6.211
1899	6.521	6.152
1900	6.228	5.269
1901	6.231	5.554
1902	6.097	5.291
1903	6.177	5.875
1904	6.058	5.443
1905	6.090	5.535

FARM LOANS.

The blank application for farm loans provided by this company is intended to cover every salient feature of the security. The matter of taking applications for loans is attended to by the agent residing in the locality of the farm. The application is turned over to the financial correspondent of the company in the district where the security is located. The financial correspondent, either in person or by some one employed by him, examines the security and makes a written report, coupled with the recommendation of approval or rejection. The company in many instances sends a special agent to see the security, if in a new location, or if it presents unusual features. The farmer is required to sign a blank giving the most minute detail of the description, location and character of the land, nature of the soil, number of acres cultivated, number fit for cultivation, crops raised the preceding year, kind and quantity thereof; a detailed description of the buildings, size of the house, material of which constructed, age of the house, cost of construction, cost of any repairs, and every detail which would enable the officers of the company to pass judgment upon the value of the security tendered. The applicant is required to insure the buildings for the benefit of the company during the term of the loan.

The farmer is permitted to pay one-fifth of the principal each year, but cannot do this with money borrowed elsewhere. If one-fifth is not paid each year it cannot be made cumulative in later years. The purpose of this arrangement is to continue the loan as long as possible. If the applicant fails to accept the loan when tendered, he obligates himself to pay a percentage of the expense of investigation.

The company also requires the affidavit of two resident freeholders of the county in which the land is located. Until recently, the company was not permitted to loan upon farm mortgage security, an amount in excess of fifty per cent of the value of the land, exclusive of the buildings.

The financial agent, being familiar with the security offered, can anticipate in advance if satisfactory to the company. Instead of waiting until the matter is fully investigated by the company, the financial agent makes the loan with the understanding, that if not accepted by the company, he shall carry the loan, and he does in fact carry it until such time as it is approved and accepted by the company. During this time the financial agent receives the amount of interest earned upon such loan.

From the beginning, this company has negotiated \$80,000,000 of loans, about 55,000 loans. The total loss from the organization of the company to the present time on such loans was claimed to be less than \$60,000. (pp 967-968.)

FORECLOSURES.

Year.	Total Outstanding Mortgages.	Foreclosures.
1895	5,813	60
1896	9,130	75
1897	16,882	89
1898	12,507	57
1899	11,178	51
1900	16,191	25
1901	16,299	12
1902	20,465	13
1903	22,779	7
1904	26,625	6
1905	28,421	6

PERCENTAGE OF FORECLOSURES TO AMOUNT OF REAL ESTATE LOANS.

1896, 1.30-100 per cent.; 1897, 1.54-100 per cent.; 1898, .91-100 per cent.; 1899, .72-100 per cent.; 1900, 2-100 per cent.; 1901, 8-100 per cent.; 1902, 9-100 per cent.; 1903, 19-100 per cent.; 1904, 12-100 per cent.; 1905, 2-100 per cent.

The company has six outstanding loans in Wisconsin; rate of interest 6½ and 7 per cent.

In Iowa, 2,440 loans, amounting to \$1,896,705, rate of interest $5\frac{1}{2}$ and 6%.

North Dakota, \$2,549,014, rate of interest 7%.

Minnesota, \$2,691,383, rate of interest $6\frac{1}{2}$ %.

Indiana, \$2,574,643. Average rate of interest $5\frac{1}{2}$ to 6%.

At the present time 81% of this company's investments are made upon the security of farm lands.

This committee is convinced by the testimony that this company has organized a most efficient and successful investment department. We have not made any personal investigation of the safety of the investments made, or sufficiency of the security taken. We are, however, convinced that these farm loans are made with great care and conservatism. A loss of \$50,000 upon loans amounting to \$80,000,000, is such a small percentage of loss as to demonstrate beyond question, that these loans are made upon ample security. The small percentage of foreclosures to the amount of real estate loans, would seem to indicate great care in making investments to industrious and reliable farmers. The company has sent its active agents into the agricultural districts to aggressively compete for farm loans. They have not attempted the practice of seeking loans through local banks and money lenders, who are themselves interested in securing such loans, to the exclusion of others.

WISCONSIN LIFE INSURANCE COMPANY.
(Madison, Wisconsin.)

The Wisconsin Life Insurance Company was organized in the year 1895, as a mutual company, under chapter 418 of the laws of 1891. It was reorganized under chapter 175, laws of 1895, and operated thereunder until sometime after chapter 270, laws of 1899, known as the "Stipulated Premium law," was enacted. Subsequent to the enactment of chapter 270, laws of 1899, the company was reorganized, and continued so to operate until the fall of 1902, when it was again reorganized under the statutes applicable to old line companies.

The investigation of this company revealed a striking condition of incompetency and mismanagement on the part of some of its principal officials.

ELECTION OF OFFICERS AND PROXY SYSTEM.

In the earlier history of the company, a proxy was given to the executive officers by each member, on his medical examination. (Testimony, page 62.) The present practice is to give the proxy to the executive committee at the time the policies are delivered. At the last annual meeting, the executive committee held from 800 to 1,000 proxies, which constituted a substantial majority of all the policy holders. These proxies held by the executive committee are voted by the secretary, whenever a question of difference arises among those present.

Under a recent amendment to the constitution, the executive committee is limited to the use of 500 proxies which are continuous until revoked. (p 67.)

The method of electing officers in this company is illustrated by the minutes of the adjourned meeting in October, 1902. At this meeting two directors were selected to succeed A. R. Bushnell and R. A. Watkins. Upon motion the secretary was directed to cast the unanimous vote of the members for each director to succeed himself. The minutes do not show what members were present, or how proxies were voted at this meeting. (p 68.)

The president of the company in testifying with respect to the election of trustees, said, "the directors are elected at the annual

meetings of directors or members of the company, and as there were no members present excepting the directors, of course they did the whole business. They voted for themselves and reinstated themselves in office." Members were not accustomed to attend the annual meetings, and no notice of such meetings was given to members, except a notice published in the newspapers.

Articles 5 of the company's constitution, authorizes a director to appoint another director as his proxy. This has been a common practice in the company. Under this provision one or two directors, acting as proxies for the others, represented the whole board of directors. The election of directors in this company is but a mere matter of form, consisting of a ratification of a slate prepared in advance. The executive committee is composed of three members elected by the board of directors each year, and is by resolution authorized to perform all the duties of all other committees provided by the constitution.

OFFICERS AND SALARIES.

Rasmus B. Anderson has been president of this company, except for a few months, since the company was organized in 1895. He was formerly an agent of the Equitable Life Assurance Society in the states of Wisconsin and Minnesota. During his examination as a witness before this committee he stated that he did not know whether the articles and by-laws under which it is now operating, are those which appear in the report of the commissioner of insurance for 1904, or whether the articles of organization, by-laws, and amendments furnished to this committee, are the present articles under which the company is transacting business; that he had no knowledge of the fact that the company was frequently reorganized; had no clear or definite knowledge as to the reasons for reorganizing; did not know the manner in which the books of account were kept or the funds disbursed, and could not speak with accuracy as to the amounts disbursed to himself; had no knowledge of the fact that different policies were issued as the result of this reorganization; and had no knowledge as to the purpose, the consideration or obligations of contracts involving the solvency of the company.

A. R. Bushnell is vice-president, treasurer, counsel, and chairman of the board of directors (p 58). Mr. Putnam is at present

secretary and bookkeeper, and Mr. Nedderson actuary and manager. From the time of the death of L. M. Fay to the election of Mr. Nedderson, Mr. A. R. Bushnell was manager.

The company has made no provision for salaries for officers. No corporate action in relation to such salaries has ever been taken. There is, however, an understanding that in the future these officers shall be compensated reasonably, for services rendered, when the company shall be able to do so, without impairment of any of its obligations to its policyholders. No record has been made of such understanding, and no amount agreed upon as "reasonable compensation" (pp 126-127). It appears to be the undoubted intention of these officers to compensate themselves in an amount which, in their judgment, is reasonable, although Mr. Bushnell, vice-president and general counsel, testified that he did not consider there is any liability against the company in favor of any of its officers (p 128).

President Anderson testified that, as an officer of the company, either as director or president, he never received one dollar, directly or indirectly, with the exception of eight or nine hundred dollars during the months that he acted as manager, and the commissions paid him for writing policies issued by the company during the first year of its existence. The books of the company show charges against Mr. Anderson, as follows: In 1895, commissions, \$2,311.25, traveling expenses, \$28 (p 21); in 1896, commissions, \$746.36 and an item of \$18.91; 1897, salary \$285, and an additional charge of \$921.12; traveling expenses the same year, \$132.56; in 1898, salary \$913.33, commissions \$366.93, traveling expenses \$54.72; 1899, salary \$800.

In 1900 Mr. Fate, for a time occupied the position of president and received a salary at the rate of \$2,200 per annum (p 23).

The books likewise show that while holding the various offices above referred to, Mr. Bushnell has from time to time been paid various sums for his services and expenses; that he has also had his insurance policy of \$3,000, requiring an annual premium of \$125.70, carried by the company.

FORMS OF POLICIES ISSUED.

The forms of policies issued by the company are divided into five periods. During these periods different kinds of policies

conforming to the usual ordinary life, limited payment life, endowment, term, etc., were written.

FIRST PERIOD. This period extends from June 10th, 1895, to April 10, 1897. The policy forms for this period are marked exhibits 1 to 9. During this period the company sold policies upon the representation that it was issuing natural premium policies. The policies did not conform to the general definition of natural premium policies. The premium is a certain stipulated sum, payable at a fixed date during the continuance of the contract. The company agrees to pay a fixed amount upon the death of the insured. The policy contains a table purporting to be a table of surrender values, computed for each year of the term of the policy. This table contains the word "estimate" before the last section of the table. The surrender value is subject to the word "estimate." It contains a stipulation to the effect that upon the insured reaching the age of 71, the full amount of the policy, without conditions, estimates or otherwise shall be paid in ten equal annual instalments. It also contains a disability clause (p 131), and contains what is known as the safety discount clause which is the only clause which differentiates it from the ordinary life level premium policy, except the premium charged. At the time of the investigation there were 38 of these policies outstanding, 21 issued in 1895, 12 in 1896, and 2 in 1897. The premium charged in these policies is not sufficient to enable the company to comply with their terms. Mr. Vail as actuary testified "there was no experience table published of a combination of this kind in 1895. The company simply made a guess as to the premium charged, cash surrender values, endowment and disability features." That if these policies were carried for a number of years the company could not meet the death claims without resorting to the assets belonging to the other policy holders. Of this class there are outstanding 99 twenty payment life policies, 52 issued in 1895, 40 in 1896 and 7 in 1897. Of this class there are 17 fifteen payment life policies outstanding, 9 issued in 1895, 5 in 1896 and 3 in 1897. Of the ten payment life policies of this class, there are outstanding 19, 17 issued in 1896 and 2 in 1897.

SECOND PERIOD. This period extends from April 5, 1897, to August 22, 1899. The policies of this period contain no table of cash surrender values. The endowment clause is changed to read as follows: "On reaching the age of expectancy, 71 years, the

insured may, upon surrender of the policy, receive as its cash surrender value, the full amount of the surplus accumulations credited to the policy." Of this class there are outstanding 112 policies, 55 issued in 1897, 44 in 1898 and 13 in 1899. The amount of reserve required to meet the obligations of these policies, as valued by Actuary Vail and calculated on the 4% combined preliminary term, is \$30,184; on the more lenient standard of 4½% American preliminary term \$28,835. The amount of reserve carried by the company upon these policies is \$2,165, or a shortage of \$26,675. These policies contain what is known as the assessment clause, which reads as follows: "The premiums herein required to be paid by the insured are to provide a mortuary fund for the payment of death benefits, and for the general and emergency fund, and are composed of the following elements:

First. The mortuary element, which is based upon the Actuaries or Combined Experience Table of Mortality, with interest at 4%.

Second. The emergency fund which shall equal 20% of the mortuary element, and which shall be used for mortuary purposes only, and not then unless the mortuary fund shall be entirely exhausted, and such proportion as may be necessary for mortuary purposes shall be equitably apportioned to this policy, and shall be debited against the emergency fund to the credit of this policy.

Third. It is expressly understood that this policy is carried on the books of the company the first year as term insurance; that the annual expense element of the premium, shall not exceed the sum of four dollars per thousand of insurance. These rates are based upon insurance experience, and if the death rate does not materially increase, will prove ample to carry out every provision of the policy contract; but if an emergency arises whereby the mortality expenses of the company shall exceed the mortality provisions made by said table or rates, the premiums for the mortuary fund only shall be equitably increased to meet the emergency, as required by law, in which event the same shall become due thirty days after notice thereof given to the insured, or with the consent of the directors, the amount thereof, together with interest at the rate of 6% per annum, may be charged against this policy, and deducted therefrom when the same becomes a claim."

The present condition of the company is such that to meet the obligations of these policies the company would have to draw

upon the accumulations of other policies (p 141). The company has never exercised the power given by this clause to assess these policy holders to make up the deficiency, and at the present age of the policies of this class, the amount at this time will be excessive upon these policy holders, as compared to the amounts they would have paid, had a sufficient premium been collected from the beginning. (p 144.) It was the opinion of Actuary Vail that in order to treat the older policy holders justly the company should have kept a separate account of the contributions of the particular class of policies subject to assessment; that the failure of the company to keep such separate account of the mortuary fund contributed by the so-called "assessment policy holders," will work a great injustice to the policy holders coming in at a later date, and who are required to pay upon the basis of the maintenance of a legal reserve, according to the American Experience Table, of 4% or 3½%. These later policy holders coming into the company, have been compelled to pay from their contributions, losses sustained by reason of the maturity of the policies of the assessment class.

POLICY CONTRACTS.

The company had several rate books which were prepared under the supervision of R. B. Anderson and W. H. Rogers. In the preparation of these rate books, it was the understanding of the counsel of the company, that it was required to carry a reserve under the law, equal in amount to one assessment, or perhaps an amount equal to the largest policy the company issued. This was \$5,000. The same counsel contends that there is nothing in the assessment law that prohibits an assessment company from issuing any kind of a policy that is ordinarily written. Commissioner Fricke, however, insisted that the kind of policies being written by the company, required a legal reserve. The company's answer to this contention was that no matter what the contract is, every contract had in it the assessment clause, and if necessary to carry out its provisions, the assessment clause would have to be resorted to, and all members taking policies, and the company itself, agreed that such should be the case. It was stated on the hearing, by the officers, that every form of policy used was submitted to the commissioner of insurance before the

same was issued (p 204). The company did, as a matter of fact, maintain and return to the commissioner of insurance in the annual statement, a legal reserve upon these policies, notwithstanding the assessment clause. Mr. Bushnell testified that he was surprised to discover on this investigation, that the company's policies contained surrender values, loan values and extended insurance, without indicating that these were estimated values. It was conceded that the policies issued by this company after the enactment of chapter 270, laws of 1899, contained no direct provision providing for assessment. These policies contain references to chapter 270, laws of 1899, which are so incorporated in the policy contract that a policy holder who was not familiar with that chapter would not take the policy contract with the understanding that he was liable for an assessment. (p 220.)

COMPANY'S RATE BOOKS.

The executive committee was charged with the duty of preparing rates. Mr. Timme, actuary in the insurance department, was consulted. John L. Fate was the assistant actuary in getting out the rate book. Professor Van Velzer also did some work upon the rate books. President Anderson took a conspicuous part in getting out the first rate book. (p 222.) It was stated by one of the officers that President Anderson knew as much about insurance, and a good deal more than all the others who were connected with the company; that the only members of the company familiar with life insurance, at the time of the organization were W. H. Rogers and R. B. Anderson (p 223). These gentlemen had experience in soliciting insurance (p 224). The table of rates was based upon the experience tables of mortality and the practices of life insurance and rates that other successful companies were charging (p 225). Sometime prior to May, 1905, the company discovered that its rates were inadequate and on May 11th, 1905, the company passed a resolution reciting the fact that a certain number of policies were issued on the assessment plan, providing for a mortality fund, and 10% additional fund for reserve; that the mortality cost had exceeded the net premium collected and the surplus accumulation by said 10% reserve, and resolving that each such policy holder be required to pay an additional sum to meet the mortality cost each year; that

each said policy holder might have the option to increase his payments, or decrease the face of the policy each year, to the amount that the premium paid would purchase according to the combined experience tables of mortality, also giving to each holder of such policy, the option to change his assessment contract to any non-assessable form issued by the company, and granting a cash value, loan value, paid up insurance and extended insurance.

Since that time the company has been carrying out the scope of this resolution. At the time of the investigation Mr. Nedderson was at work calculating the amounts to be paid by each policy holder (p 235). In 1904, the officers of the company discovered that these policies could not mature (p 237.) The department of insurance has always held that all policies written by this company require a legal reserve (p 244). No attempt has been made by the company to levy an assessment against such policy holders.

INSOLVENT CONDITION OF THE COMPANY.

The testimony shows that if the entire assets of the company above the amount set aside as legal reserve, were added to the legal reserve, the company would not have sufficient reserve to mature and pay all outstanding policies; that the company's premium charges were never sufficient to enable it to give a guaranteed surrender value (p 150); that the cash value offered by the company was approximately, what is usually offered by other companies receiving the full premium; that the only way to make up this deficiency, without prejudice to the other policy holders, is to assess the policies in which the company reserves, the right to assess, and thereby make up the deficiency (p 151); that this assessment may be made in two ways, either to require an additional payment of the policy holder, in the way of additional premiums, or by a reduction of the face of the policy, as was done by the Charter Oak, and one or two other companies of this kind (p 152).

The testimony shows that from the time of the organization of the company, up to 1902, when it was reorganized as an ordinary old line insurance company and collected premiums upon that basis, the company has never had a sufficient reserve. On the

contrary, it was, during all of this period, insolvent. Its solvency at the time of this investigation depends entirely upon its ability to collect sufficient upon these old policies to enable it to put up a proper reserve. The testimony also shows that in case of the maturing of the policies under the disability clause, it could protect itself only by resorting to an assessment, and we think it extremely doubtful if, under the terms of its contracts, it could resort to the assessment clause in order to liquidate liabilities under the disability clause of its contracts. (See section 270, laws of 1899.)

FOURTH PERIOD. The fourth period extends from March, 1900, to October, 1902. The policies issued during this period do not contain the disability clause, endowment clause, or the assessment clause, but do refer to section 12, chapter 270, laws of 1899 (p 168). During this period the company issued a form of policy in the nature of a ten year semi-tontine policy. There are 297 policies of this class now outstanding, making a total of all outstanding policies of the first, second, third and fourth periods of 715 policies.

FIFTH PERIOD. This period extends from October 28th, 1902, to December 31st, 1905 (p 170). These policies provide for a cash surrender value at the end of the third year, equal to 95% of the full $3\frac{1}{2}\%$, American Experience Table, and one-half of one per cent in addition, each year, until it reaches the full $3\frac{1}{2}\%$ American Experience Table. (p 171.)

The tabulated statement prepared by the actuary employed by the committee, showing the kinds of policies in force, covering the first three periods of the company's history, with the regular reserves required by law, shows a total deficiency of \$48,271.

RESERVE REQUIRED BY COMMISSIONER OF INSURANCE.

In 1896 Mr. Fricke, as commissioner of insurance, required the company to put up a reserve. Mr. Fay, who was at that time manager, furnished a part of it, Mr. Rogers an additional part, and President Anderson the balance. The whole amount required was \$18,000, and was furnished in the form of mortgages on real estate. These notes and mortgages were subsequently returned to Fay, Rogers and Anderson.

FAY CONTRACT.

In May, 1902, the company entered into a receipt and contract with Mr. Fay as follows:

"Received, Madison, Wisconsin, this 31st day of May, 1902, of L. M. Fay, being a promissory note for \$15,000, bearing interest at $3\frac{1}{2}\%$ per annum, secured by a mortgage on 800 acres of land, as a part of the assets of the Wisconsin Life Insurance company, and to repay the same, and in consideration thereof, and in further consideration of the fact that he took hold of the company and put it on its feet when it was in great straits, and has managed the business and affairs of said company ever since August 1st, 1900, with signal success, giving to the same most of his time and attention, and he is to continue to do so while his health permits; said company hereby sets over and assigns to him, the said L. M. Fay, his heirs, personal representatives and assigns, the one-fourth part of the expense loading of all future renewals of all policies of said company, heretofore written or hereafter to be written, for twenty years from this date, provided, however, that when the same shall have amounted to enough to repay said mortgage and interest, and pay said Fay \$3,000 per annum during the time he has so managed and shall continue to manage for said company, and \$2,000 per annum thereafter, during said twenty years, then this assignment shall no longer be in force; but provided further, that if at the end of said twenty years enough shall not have been realized upon this assignment to amount to such payment as aforesaid, then and in that case, the same shall remain in force long enough to make up such payment in full thereby. Witness the hand of the president and secretary of said company, and its corporate seal, and the hand and seal of said Fay, the day and year first above written. Executed in presence of A. R. Bushnell and George E. Anderson, R. B. Anderson, president of said company, A. R. Bushnell, secretary of said company, and L. M. Fay. Seals."

President Anderson testified that he signed this contract on the advice of counsel. This action was not authorized by any resolution or act of the company. Mr. Bushnell and Mr. Fay came to his office to get his signature. He was unable to state whether one-fourth of the expense loading of all future renewals of the company's policies theretofore and since written have

been applied toward the liquidation of this contract. (p 38.) That it was his understanding that this contract was given to pay Fay \$15,000, with 3½% interest, \$3,000 salary so long as he continued to manage the company, and \$2,000 per annum thereafter, during twenty years; that this was imposed upon the company in addition to the mortgage and interest and salary which was given to Fay in consideration of his services and an advancement of \$40,000; that the \$10,000 is still a liability on the expense loading of the company, and if at the end of twenty years, enough shall not have been realized from the assessment to meet these payments, the same shall remain in force long enough to make up such payments in full.

It appears that at the time of the making of this contract the mortgages theretofore deposited by Fay, Anderson and Rogers were returned; that Fay deposited with the company a \$15,000 mortgage on certain lands in Forest county. President Anderson testified that he knew nothing about the value of these lands; that Mr. Bushnell ought to know because he approved of the loan; that he as president, had no knowledge of the transaction, except as above stated.

It was contended by the officers and directors, that the depositing with the company by Anderson, Fay and Rogers of \$18,000 worth of notes and mortgages, did not create a liability on the part of the company; that they contributed this amount at the risk of building up the company (p 108); that this \$18,000 was contributed to secure present and prospective policy holders; that they had no idea as to how Fricke calculated it as \$18,000. (p 109.)

Prior to the agreement with Fay the company paid no interest upon these mortgages deposited by the directors. In the subsequent agreement with Fay they allowed him 3½% interest. In this connection it was asserted by the officers that Anderson, Fay and Rogers did not put these mortgages in as an absolute asset, but simply as security, to be kept until the company could return them, without impairing its legal reserve; that they were only contingently the property of the company. They were, however, reported to the commissioner of insurance as the absolute property of the company. It was conceded that if the company was required to earn 3½% on its reserve, to meet the obligations of the company, and pay 3½% to Fay, it would be required to

earn 7% net on its investments. The counsel of the company insisted that this contract with Fay was not a liability, and that the officers of the company had a right to enter into this contract without any authorization from the board of directors. (p 117.) No copy of this contract was kept or filed in the office of the company. Responsibility for the failure to record it was placed upon the management of Mr. Fay. Fay as manager, made the terms of the contract between himself and the company and the president and counsel approved it. (p 122.) No record was made of the transaction of the directors putting up \$18,000 reserve. The minutes of the meeting of the board of directors for May 1st, 1897, show that Mr. Fay was insisting upon repayment to him of that part of \$18,000 put up by him to meet the demands of the commissioner of insurance, and on May 1st, 1897, Mr. Brand was directed to negotiate a settlement with Mr. Fay, upon the best obtainable basis to avoid litigation, and that if it was impossible to obtain a settlement in any other way, without litigation, he, Brand, was authorized and instructed to reconvey to said Fay, the securities held by said company for said Fay, and secure the cancellation of all contracts and memoranda existing between Fay and the company for the purchase of the same.

It appears from the testimony that while the company was reporting these mortgages as an asset, they had some private arrangement with these directors, by which the company became liable to the directors for the full amount of this \$18,000; that in complying with the requirements of the insurance department, they treated these mortgages as the property of the company; that in dealing with the directors who put up these mortgages, they considered them the property of the directors; that prior to, or at the time when the contract above set forth was entered into between Fay and the company these mortgages which had been reported to the commissioner of insurance as a part of the company's reserves, were returned to the directors who deposited them. The Fay mortgage on the Forest county lands was held by the company as a reserve and was so reported to the commissioner of insurance. The side contract with Fay was neither filed nor recorded in the office, nor upon the books of the company, nor any reference made to it which would enable the commissioner of insurance, upon an examination of the company, to ascertain its existence.

Mr. Bushnell, however, testified that the commissioner of insurance of Texas by his representative, examined the company; that such representative looked into the Fay mortgage, receipt and contract, and accepted it as a part of the assets of the company; that at this time there was nothing in the books or records of the company, which would enable an examiner to ascertain its existence. The counsel of the company stated that he had no definite or clear recollection relating to the meeting of the directors, when action was taken resulting in the Fay contract; that his advice and opinion with respect to the same was never asked. He furthermore stated that he did not know if any member of the company examined the land covered by the \$15,000 Fay mortgage (p 402); that all the information he had as to the value of the lands was a memorandum on the back of a letter signed by R. B. Anderson, president, dated Sept. 6, 1896, addressed to Daniel Gagen of Forest county, and also a letter dated Sept. 4, 1896, signed by A. R. Brazeau. (p 406.) He stated that he did not see these appraisals, and did not examine the mortgage to ascertain the character of the security; that the company had at that time been placed in the hands of Fay to run; that as an officer of the company he signed the Fay contract, basing his information as to the value of these lands, entirely upon the judgment of Mr. Fay. (p 405.) The letter of Mr. Brazeau, reads as follows:

"Cavour, Forest county, Sept. 4, 1896. National Insurance Company, Gents: Said lands are wort \$50 to \$100 an aker, depending as to nearness to raylroad and amt. of timber on it. Most respectfully, A. R. Brazeau."

Mr. Bushnell conceded that upon an examination of this letter there seemed to have been erasures; that the figures 50 and 100 appear to have been changed (p 406); that he had not the slightest knowledge as to who made these erasures. The endorsement on the letter of R. B. Anderson reads as follows:

"These lands are worth from \$25 to \$40 an acre, depending on the amount of timber on each description; say \$25,000 to \$30,000 for the whole batch."

The body of this endorsement is written in one handwriting, and the name "D. Gagen" in another handwriting. There were holes in this paper and thinness in some places, indicating that it had been tampered with. There appears a correction in the

word "acre" in another handwriting and in different ink. There was also evidence of a change in the figures \$25,000 and \$30,000, in different ink. (p 407.) Evidence was offered on the hearing, showing that on January 24th, 1904, 10 years subsequent to the aforesaid appraisal, lands in this county, as a whole, were worth not to exceed twelve dollars an acre.

The officers of the company insisted at all times, that under the law they were not required to maintain the reserve required by the commissioner of insurance. They were unable to throw much light upon the transaction of the directors, Anderson, Fay and Rogers, depositing with the company \$18,000 in mortgages required by the commissioner; nor as to the transaction between the company and Mr. Fay, which led the company to enter into the foregoing contract with Mr. Fay. From the testimony taken, and the inferences to be drawn therefrom, the committee are clearly of the opinion that this entire transaction may be summed up as follows:

First. That the officers of the company, when required by the commissioner of insurance to put up a reserve, received from president R. B. Anderson, L. M. Fay and W. H. Rogers, certain mortgages of the face value of \$18,000; that these mortgages were turned over to the company simply because the commissioner required this reserve; that there was a distinct understanding on the part of these officers that these mortgages, in their dealings with those who put them up, should either be returned to them, and while retained by the company be considered as a liability of the company, but in their dealings with the commissioner of insurance, they should be represented as the company's assets.

Second That subsequently, \$3,000 of these mortgages were returned either to Fay, Rogers or Anderson; that the others were insisting upon the return to them of the mortgages which they had deposited with the company; that thereupon the company received from Mr. Fay a mortgage of the face value of \$15,000, covering certain lands in Forest county, and received from the company, in consideration thereof, the foregoing contract; that no officer of the company made any effort to ascertain the value of these lands, beyond the fact that president Anderson wrote to one Gagen, asking him to give an estimate of their value, and a written estimate was furnished by Gagen and Brazeau; that some

one erased the original figures and inserted others, by which erasures and insertion it was made to appear that these lands were worth ten times their actual value. We have no doubt that the purpose of this tampering with the written estimate of these lands was intended to deceive either the officers of the company, or the commissioner of insurance who might examine the company.

Third. That this contract entered into with Mr. Fay was not filed in the office of the company, nor recorded upon its books. The purpose of such failure to file or record said contract can readily be surmised by a perusal of the history of this transaction. The contract was entered into secretly and without authorization by the board of directors. It was concealed from the policy holders, and with one exception, from the commissioners of insurance, and remained a secret until revealed by this investigation. The transaction, from beginning to end is marked by concealment, tampering with estimated values, conducted in an unbusinesslike manner and merits unqualified condemnation.

COMMISSIONS AND EXPENSES OF NEW BUSINESS.

This company is conducted under the general agency system. It has in its employ seven general agents. The contract of the general agent for Wisconsin provides for 70% first year's commission. There is no provision for renewals. Endorsed on the back of the contract is a stipulation that beginning April, 1905, this agent shall receive \$60 a month, until the first day of November, 1905. Also a provision for reasonable actual traveling expenses, while traveling on business of the company, exclusive of soliciting new business. He has been occupied chiefly, in readjusting the business of the company. (p 306.)

Mr. O'Callahan, another general agent of the company receives 70% commissions and 7% renewals on participating business. He is paid no bonuses or expenses.

The general agent for the company in Oklahoma and Indian Territory received 85% commissions with no renewals. The general agent of the company in South Dakota receives 80% commissions without renewals. The company had a contract dated Feb. 15th, 1901, with the firm of Beemer, Smart, Wass & Beemer of Minneapolis, appointing them as superintendents of

agencies; their stipulated compensation was 90% on first year's premiums, and a renewal fee of one-half the expense loading on all policies of every kind, written by the company during the life of the contract, and so long as such policies should remain on the books of the company, and such renewal premiums are paid. This amounted to 2½% renewal commissions.

All of the soliciting agents of the company were turned over to this firm, who in turn accepted existing contracts with these agents. It was the intention and purpose to place the entire matter of soliciting new business in charge of this firm. This contract, with the exception of the renewals, is not in force at the present time. A fair proportion of the business written by this firm remains on the books. This firm received commissions, as follows: 1901, \$4,382; 1902, \$11,381; 1903, \$24,565; 1904, \$13,-785; 1905, \$3,871.

E. L. Simmons, another general agent, received commissions, as follows: 1903, \$12,390; 1904, \$31,053. After 1904 Mr. Simmons was placed on a salary basis. (p 314.) While writing on a commission basis he received 90%, with 12½% renewals. From 65% to 70% of the business written by him lapsed in 1905. (p 315.)

The total number of policies issued by the company in 1905 was 1027. At the beginning of the year there were 1640 policies outstanding. During the year 1905, there was substantially 74% of the business written outside of this state. This business was written principally in Texas, Louisiana, Arkansas, Oklahoma and Indian Territory. (p 318.) The lapsed policies in 1905 were 786 of the value of \$1,215,640. The number lapsed in Wisconsin was 119, of the value of \$161,340. Of the lapsed policies of that year 13% were Wisconsin policies, and 87% were policies written outside of this state. A large number of the company's policies written in Tennessee lapsed. It was claimed by the officers that this lapse of Tennessee business was of no particular injury to the company. The contract with the general agent at Baton Rouge stipulates for 70% first year's commissions and 10% renewals, for the term of ten years, amounting to 70% commissions and 100% renewals.

It appears from the testimony that the greater portion of lapses in this company occur at the end of the first year. The next largest proportion at the end of the second year; that the largest

number of policies are surrendered at the end of the third year. The officers of the company stated that in their opinion, there is a direct relation between high commissions and excessive lapses. This is due to the fact that high commissions encourage rebating. Policies that lapse at the end of the first year result in no benefit whatever to the company, the first year's premiums being exhausted in paying commissions and other expenses.

Several officers of the company received commissions on business written by them. President Anderson received commissions in 1902, \$2,311. From 1896 to 1901, he received \$6,281. Mr. Brand, while assistant secretary and manager, received \$1,679.

In order to conceal the amount of commissions paid, these several amounts received by the officers as commissions, were distributed among the other accounts, including officers' salaries, traveling expenses, etc. The purpose of this distribution was to mislead with respect to the amount of commissions paid to agents. It was conceded that the books of the corporation were not accurately kept. (pp 324-25-26-27.) The records of the company show that Mr. Simmons, as general agent, received 90% first year's commissions, 5% bonuses, and 12½% renewals, during the life of the policy.

GAIN AND LOSS EXHIBIT.

The gain and loss exhibit for 1905 shows loading \$39,909. These figures were taken from slips or policy cards, by Mr. Nedderson, the actuary of the company. These expenses include taxes and back taxes actually paid. The amount of loading received for the year 1904 is \$56,071. The expenses for that year were \$60,429. In 1904 the company exceeded the expense loading by about \$4,000, in 1905 by \$5,000. (p 343.) The loading for the year 1903 was \$49,060. Total expenses \$49,051.35. This does not include death losses or cash paid on surrendered policies.

POLICY LOANS.

Policy loans are made according to the rate book compiled by A. E. Timme in 1899. The loan values stipulated are greater in

earlier years than the reserve. (p 391.) The company has about \$14,000 loaned on its policies, and the loan in several instances is above the amount of the reserve. (p 353.)

REAL ESTATE LOANS.

We find that this company, in some instances at least, did not carefully investigate the value of real estate upon which loans were made. (p 417.) The company made 36 loans on real estate in Dane county. The lands mortgaged to secure these loans were valued by appraisers employed by this committee, and in every instance, the appraisal of these lands by the company was in excess of the appraisal made by such experts. Upon this appraisal we find that in some instances loans have been made, upon what seems to us a small margin of safety. The officers of the company, however, stated that the company has never lost anything on account of such loans, and have had no difficulty in collecting the same.

In view of the history of this company, we recommend the repeal of chapters 418 of the laws of 1891, 175 of the laws of 1895, and 270 of the laws of 1899. We call especial attention to the facts herein set forth in relation to the proxy system existing in this company, and the method of election of officers and trustees, in support of our recommendation elsewhere made to abolish proxy voting in mutual insurance companies, and to emphasize the necessity of our recommendation giving to each policy holder an opportunity to vote for such trustees, and authorizing the governor to appoint one independent and impartial trustee on the board of directors of each domestic insurance company.

Owing to the condition of this company, as disclosed by the evidence taken before this committee, we decided that it was the imperative duty of the committee to at once lay before the governor the testimony taken upon this investigation. Thereupon a transcript of such testimony was filed with the governor, who in turn referred it to the commissioner of insurance.

Since the investigation of this company closed, the officers have filed with the committee the following statement of the company's business.

This statement shows that the Fay receipt and contract of May 31st, 1902, has been fully adjusted and settled, and that the set-

tlement has been ratified and approved by resolution of the special annual members meeting of the company, held May 11th, 1906; that the annual members meeting omitted to be held on the second Monday of January, 1906, has been corrected by a special members' meeting called by written notice to every policy holder, and publication thereof; that said meeting was held May 11th, 1906. That reductions of commissions paid to agents have been made, as suggested by the committee; that a new rate book has been adopted with reduced early surrender values, but without change in the rates of premiums; that the assessments due on the old ordinary life assessment policies issued by the company in 1897 and 1898, have been enforced, as suggested by the committee. That as the result thereof, these policies to the amount of \$72,500 have paid such assessments in the amount of \$1,253.59, and \$59,000 of these policies have lapsed; that the holders of other assessment policies of the company, to the amount of \$54,000, have voluntarily changed their assessment policies, to full legal reserve or old line policies, through which there has been added to the assets of the company the sum of \$6,618.00.

This statement also contains an elaborate review of the statutes of the state, in which it is contended by counsel for the company, that this company was exempt from the provisions of the general insurance laws of the state, and that the company was reorganized on the theory that the doing of old line life insurance business after the reorganization, should apply to future policies only; that its past assessment policies should stand upon the contract made with the holder and the law in existence at the time of the issuing of such policies.

FUNDAMENTAL PRINCIPLES OF INSURANCE, PUBLICITY AND CONTRACT PROVISIONS AS TO EXPENSES OF INSURANCE MANAGEMENT AND MORTALITY, REDUCTION AND LIMITATION OF PREMIUMS, ANNUAL AND DEFERRED DIVIDENDS.

Many practices of a more or less technical nature, relating to the fundamental principles of insurance, have been examined into and found to be grossly inequitable in principle. The committee sought to determine the reasons for these unfair practices, and found that in most cases the only defense of the same was long established custom and usage.

It has been shown to the satisfaction of the committee among other things, (a) that the expense charges for insurance management are excessive and apportioned unjustly as between different classes of policies; (b) that premiums on most classes of policies are unnecessarily high; (c) that the dividend returns seldom correspond to actual conditions; (d) that discrimination is employed in the apportionment of dividends, as between annual and deferred dividend policies, and in interest rates on policy loans; (e) that excessive charges have been and are now exacted upon the surrender of policies for cash, and for paid-up and extended insurance; (f) that unreasonable forfeitures of the reserve are exacted during the first three years of the policy; (g) that the policies and loan agreements of many companies contain harsh provisions.

It appears that in the aggregate effect, these methods and practices, running through a long period of years, have resulted in even greater loss to the policy holders than occasional abuses of a more sensational character.

Owing to the nature of the investigation, as outlined above, and recommendations made, this branch of the report assumes a more technical form, the intelligent understanding of which necessitates an explanation of some of the underlying principles of life insurance.

MORTALITY TABLE.

To determine the annual charge which will enable the company to fulfil its policy obligations as they mature, a mortality table, which serves to measure the expected death rate, must be adopted. The mortality table is based on past experience, and shows how many, in a group of people all of the same age, say 100,000 at age ten, will survive to each higher age. The table generally employed in this country and now used by the Northwestern Mutual and Union Central Life Insurance companies, is known as the American Experience Mortality table. It is a fairly liberal table, and secures the safety of contracts based upon it, by a reasonable margin. It should be particularly noted that the figures in the last column represent, as to any given group, sufficiently large, the amount in cents which must be contributed at the end of the year by each member thereof to pay \$1,000 on account

of each death during the year. Experience shows that a group of one thousand persons is sufficiently large for the law of averages as indicated in this table to apply.

The table is here reproduced.

AMERICAN EXPERIENCE TABLE OF MORTALITY.

Age.	Number living at beginning of year.	Number dying within the year.	Number dying during year per 1000.0.
10	100,000	749	749
11	99,251	746	752
12	98,505	743	754
13	97,762	740	757
14	97,022	737	760
15	96,285	735	763
16	95,550	732	766
17	94,818	729	769
18	94,089	727	773
19	93,362	725	777
20	92,637	723	781
21	91,914	722	786
22	91,192	721	791
23	90,471	720	796
24	89,751	719	801
25	89,032	718	807
26	88,314	718	813
27	87,596	718	820
28	86,878	718	826
29	86,160	719	835
30	85,441	720	843
31	84,721	721	851
32	84,000	723	861
33	83,277	726	872
34	82,551	729	883
35	81,822	732	895
36	81,090	737	909
37	80,353	742	923
38	79,611	749	941
39	78,862	756	959
40	78,106	765	979
41	77,341	774	1,001
42	76,567	785	1,025
43	75,782	797	1,052
44	74,985	812	1,083
45	74,173	828	1,116
46	73,345	848	1,156
47	72,497	870	1,200
48	71,627	896	1,251
49	70,731	927	1,311
50	69,801	962	1,378
51	68,842	1,001	1,454
52	67,841	1,041	1,539
53	66,797	1,091	1,633
54	65,706	1,143	1,740
55	64,563	1,199	1,857
56	63,364	1,260	1,989
57	62,104	1,325	2,134
58	60,779	1,394	2,294
59	59,385	1,468	2,472

Age.	Number living at beginning of year.	Number dying within the year.	Number dying during year per 100,000.
60	57,917	1,546	2,669
61	56,371	1,628	2,888
62	54,743	1,713	3,129
63	53,030	1,800	3,394
64	51,239	1,889	3,687
65	49,341	1,980	4,013
66	47,361	2,070	4,371
67	45,291	2,158	4,765
68	43,133	2,243	5,200
69	40,890	2,321	5,676
70	38,569	2,391	6,199
71	36,178	2,448	6,767
72	33,730	2,487	7,373
73	31,243	2,505	8,018
74	28,738	2,501	8,703
75	26,237	2,476	9,437
76	23,761	2,431	10,231
77	21,330	2,369	11,106
78	18,961	2,291	12,083
79	16,670	2,196	13,173
80	14,474	2,091	14,447
81	12,383	1,964	15,861
82	10,419	1,816	17,439
83	8,603	1,648	19,156
84	6,955	1,470	21,136
85	5,485	1,292	23,575
86	4,193	1,114	26,568
87	3,079	932	30,392
88	2,146	744	34,669
89	1,402	555	39,586
90	847	385	45,475
91	462	246	53,247
92	216	137	63,426
93	79	58	73,418
94	21	18	85,714
95	3	3	100,000

INTEREST RATE IS ASSUMED IN ADVANCE.

In addition to the adoption of a mortality table the company must assume an interest rate to measure the net future earning power of its investments.

The interest rate assumed as a basis in most companies at the present time is 3%, they having reduced from 3½%, 4% and even higher, within the last twenty years, owing to the steady decline in the interest earning power of high grade securities. Contracts of insurance are made to cover the exigencies of a long future term. Fifty or more years may elapse before the maturity of some of the policies written on the lives of the young men of today. For this reason the interest basis must be so low that there is the highest degree of certainty that it will be realized for

a long period to come. The policies now issued by the Northwestern Mutual are on a three per cent basis. Those issued by the Union Central are on a $3\frac{1}{2}\%$ basis.

PREMIUMS ARE UNIFORM.

One does not need to consult the mortality table to learn that a smaller number of deaths will occur within a year in a group of 100,000 average men at age thirty than in 100,000 at age 60. The American Experience table shows that we may expect the death within a year of about 813 in the first group, and only about 2,669 in the second. In order to pay \$1,000 on account of each death each insured would have to contribute at the end of the year \$8.43 in the first instance and \$26.69 in the second instance. It is thus evident that the cost of insurance protection at age sixty is greater than at age thirty, in short, that it increases with age. This would require an increasing premium, if the insurance benefit were paid for year by year. In practice, however, the cost increases so rapidly at the higher ages that it results in the policy holder's being obliged to drop the policy when that period of life is reached. The practical difficulty of an ascending scale of premiums has been overcome by charging an equivalent level premium.

EXPLANATION OF POLICIES AND PREMIUMS.

The premium is the payment, usually annual, exacted of the insured or policy holder. The amount of the premium differs greatly with the kind of policy. Policies of insurance are issued on various plans, the most common being the ordinary whole life insurance, the limited payment life insurance, endowment insurance and term insurance.

The ordinary whole life policy requires the company to pay the face of the policy to the beneficiary, at the time of the death of the insured, and requires the payment of a premium, usually annual, to the company, throughout the life of the insured. The number of premium payments on an ordinary whole life policy is therefore uncertain, depending upon the number of years the insured lives.

The limited payment life policy requires the company to pay

the face of the policy to the beneficiary, at the time of the death of the insured. The premium payments to the company, however, are limited in number, usually to some multiple of five, as ten, fifteen, twenty, and always cease in the event of the death of the insured.

The endowment policy requires the company to pay the face of the policy, either,

First. To the beneficiary at the time of the death of the insured, provided he dies within a stated number of years, called the term of the policy; or

Second. To the insured, provided he is alive at the expiration of said term.

The premium payments to the company are limited in number, usually to some multiple of five, as ten, fifteen, twenty, but never more than the term of the policy, and always cease in the event of the death of the insured.

The term policy requires the company to pay the face of the policy to the beneficiary upon the death of the insured, provided he dies within a stated number of years, called the term of the policy. This form provides only temporary insurance protection and all benefits thereunder cease at the end of the term. The premium payments to the company are limited in number, usually to some multiple of five, as ten, fifteen, twenty, but never more than the term of the policy, and always cease in the event of the death of the insured.

Endowment insurance provides for payment of the face of the policy, whether the insured lives or dies, at the time of the death if within the term, at the end of the term if the insured is then alive. On this account, endowment insurance is considerably more expensive than the other forms which provide for payment only in case of death.

The cheapest form of insurance is term insurance, next the ordinary life; then the limited payment life, and finally the endowment insurance.

At the present time, the largest amount of insurance is written on the ordinary whole life plan. The limited payment life and endowment plans come next in order, and there is a growing demand for term insurance. These four plans cover practically all the insurance written at this time.

Below is reproduced the net annual level premiums, for ages

25, 35, 45 and 55 for policies of insurance on various plans in the amount of \$1,000 based on the American Experience table with 3% and 3½% interest. These premiums are called net premiums, for the reason that they provide for death and endowment claims, but not for expenses of management.

NET ANNUAL PREMIUMS, AMERICAN EXPERIENCE 3 PER CENT.

Year.	Ordinary life.	Twenty pay- ment life.	Ten pay- ment life.	Twenty year endow- ment.	Ten year endow- ment.	Twenty year term.	Ten year term.
25	\$16.11	\$24.98	\$41.98	\$41.01	\$88.74	\$8.66	\$8.14
35	21.08	29.85	49.73	41.97	89.30	10.91	9.42
45	29.67	37.35	60.54	44.90	90.85	17.63	13.14
55	45.54	50.66	76.34	53.93	96.04	35.24	24.86

Net annual premiums.

AMERICAN EXPERIENCE 3½ PER CENT.

25	\$15.10	\$22.53	\$37.14	\$39.14	\$86.45	\$8.60	\$8.10
35	19.91	27.40	44.78	40.12	87.02	10.80	9.36
45	28.35	35.07	55.82	43.08	88.58	17.37	13.05
55	44.13	48.70	72.26	52.21	93.82	45.64	24.67

HOW THE RESERVES ARE ACCUMULATED.

The word "level," in insurance parlance, means that the premium is the same or uniform from year to year. It is evident, however, that if a level premium is paid from year to year, each premium during the early years of the policy, must be in excess of the current mortality requirements of the company, in order to balance the heavier demand to be made in the later years, when the current mortality requirements, owing to the then advanced age of the policy holder, become excessive. The portions of the premium payments not currently used are held to the credit of the policy and improved at the assumed rate of interest. The total accumulation at any time is the reserve on the policy, which is really a deposit made by the insured with the company. Such reserve may be technically defined as the excess of the accumulated net premium payments over the accumulated provisions for death claims and other benefits.

RESERVES ON THE ORDINARY WHOLE LIFE POLICY.

The following figures are given to illustrate the reserve accumulations:

By the American Experience Table of Mortality, with 3% interest, an ordinary whole life policy for \$1,000 issued at age 35, after ten years will have a reserve of \$116; after twenty years, \$328; after thirty years, \$523; after forty years, \$698; after fifty years, \$811; after sixty years, \$950, and at the end of sixty-one years, when the insured attains the age of ninety-six years, the reserve reaches the full face value of the policy, \$1,000. With limited payment and endowment policies, the reserve accumulates much more rapidly.

We herewith append a table, giving the reserves on various plans of insurance, each policy being for \$1,000 issued at age 35, on the American Experience table with 3% interest.

RESERVES AT THE END OF YEARS SPECIFIED, AMERICAN EXPERIENCE TABLE, 3 PER CENT, POLICY OF \$1000, AGE AT ISSUE 35.

End of years.	Ord. life.	20 payment life.	20 year endow'm't	10 payment life.	10 year endow'm't	20 year term.	10 year term.
3.....	\$ 40	\$ 68	\$107	\$133	\$ 61	\$ 7	\$ 2
7.....	98	170	270	333	658	15	2
10.....	146	256	407	505	1,000	19	0
15.....	233	418	674	555	.....	19	.....
20.....	328	610	1,000	610	.....	0	.....
30.....	523	723	.....	723	.....	.....	.....
40.....	698	825	.....	825	.....	.....	.....
61.....	1,000	1,000	.....	1,000	.....	.....	.....

CHARGE MADE TO PAY DEATH CLAIMS IS NOT MADE ON "FACE OF POLICY," BUT ON "AMOUNT AT RISK."

The reserves here given are those at the end of the policy year called the "terminal reserves." If the insured dies during the year, the company pays the \$1,000 face of the policy which in effect is a return of the reserve deposited and a payment of a loss equal to the difference between the face of the policy and the reserve. This difference, which measures the real loss of the company on account of the death, is called the "amount at risk." It is to cover this "amount at risk" that a charge is made against the policy holder to provide for death claims.

A specific example will serve to make this clear. According to

column 4 of the American Experience Mortality Table heretofore given, the charge for a full \$1,000 at risk at age 54 is \$17.40. According to the foregoing table of reserves, the reserve at that age at the end of the twentieth year is \$328, leaving the amount at risk \$672. A charge at the rate of \$17.40 on this \$672 is \$11.70, which is the so-called cost of insurance. This amount is assumed to be charged at the end of the year. If discounted to the beginning of the year at 3%, the rate of interest assumed, we have \$11.36, the "mortality charge" which would have to be provided at the beginning of the year. See Ordinary Life Policy Table on page, twentieth policy year. This is further illustrated by the policy tables hereinafter contained, showing expense charges, mortality charges and deposits as to be specified in various kinds of policies under various plans.

This charge for the "amount at risk" is made by all companies doing a legal reserve business, and at a fixed rate for each age calculated according to the mortality tables adopted, which, it is assumed, will provide for the claims on account of deaths as they occur.

The total of the "amounts at risk" is consequently the measure of the real amount of insurance furnished by the company. The total of the "cost of insurance" or "mortality charges" with interest, represents the total charges to the insured or the total actual provision made by the company to meet death claims for any year, called the "expected mortality."

The foregoing is all that is absolutely essential to the business of insuring lives from year to year. The other features of the business relate to the over-payments of the insured, the care of such over-payments, provisions for expenses called "loadings" and the return of excess charges, savings and surplus earnings, called "dividends."

This rule of making a charge upon the "amount at risk" to provide for death claims applies to any kind of insurance issued under any plan. Keeping in mind this fundamental principle will serve to eliminate many misunderstandings.

TOTAL RESERVE OF THE NORTHWESTERN MUTUAL AND UNION CENTRAL LIFE INSURANCE COMPANIES.

The report of the commissioner of insurance of the state of Wisconsin shows that on December 31st, 1905, the Northwestern

Mutual had a reserve fund of \$172,000,000; the Union Central over \$40,000,000, and the thirty-five companies doing business in this state, a reserve fund in excess of \$2,000,000,000.

SAVINGS FROM MORTALITY.

What has preceded shows that in the very nature of the contract large life insurance companies must accumulate immense reserve funds, otherwise they would be unable to carry out their promises. But there may be an accumulation in excess of the required reserve, a surplus, over and above such reserve. This surplus is due chiefly to the following causes: The mortality table adopted may exhibit a higher mortality, that is, a greater number of deaths than that actually experienced by the company, in which case there will not be as many claims to pay as provided for. This is usually the actual state of affairs. It is well known that the American Experience Mortality Table provides a fair margin of safety. For example, the actual death claims during 1905 in the Northwestern Mutual, amounted to \$1,989,613; the expected death claims to \$7,447,262, thus effecting a saving from mortality of \$2,157,589. The percentage of actual to expected death claims was only 61%, leaving a saving or surplus from over charges of about 33% of the expected loss. This saving from mortality is the first element of the so-called surplus.

For the year ending December 31, 1905, the expected mortality loss of the Union Central was \$2,175,658, while the loss actually experienced was only \$1,196,177, giving a mortality saving of \$979,481. The actual loss was about 55% of the expected, a saving from mortality of 45% of the expected loss.

The report also shows that in all the thirty-five companies doing business in this state last year, there was a mortality saving of about \$21,000,000, something over 18% of the expected loss.

GAIN FROM EXCESS INTEREST.

If the interest basis assumed is 3%, it may actually happen that the company earns more than this on its investments. The average net interest earnings of the Northwestern Mutual and the Union Central have at all times been fully one per cent, and occasionally as much as three percent over the interest basis em-

played in computing the premium. This furnishes another important source of contribution to the surplus, and it is called the gain from interest.

For the year ending December 31st, 1905, the net interest earnings, that is, the total interest earnings less investment expenses of the Northwestern were reported to be \$8,850,228; the interest required to maintain the reserve \$6,172,525, giving a net gain from interest of \$2,677,703. Similarly for the Union Central, the total net interest earnings were \$2,919,970, interest required to maintain the reserve \$1,549,159, net gain from interest \$1,370,811.

The thirty-five companies doing business in this state made a gain of gross interest over the reserve requirements in 1905 of over \$28,000,000.

THE NET PREMIUMS ARE LOADED FOR EXPENSES.

Up to this point nothing has been said concerning the provision for the expenses of the company. The premiums which we have been dealing with are termed *net premiums*, and they are computed so as to be adequate to meet the death and endowment claims as they mature, and nothing more. However, there are many expenses of operation to be met, as agents' commissions, medical examination fees, salaries of officers, clerk hire, taxes and other expenses. These expenses are met by adding what is termed "loading" to the above mentioned net premium. Thus, the net premium provides only for mortality and endowment claims, while the loaded, gross or office premium, provides both for the mortality and endowment claims and expenses of management. The net annual premium based on the American Experience table with 3% interest, for an ordinary whole life policy for \$1,000, issued at age 35, is \$21.08. If to this is added 32.1½% of itself, namely \$6.85, the sum is the loaded annual premium \$27.93, actually charged by the Northwestern Mutual. It thus appears that about one-fourth of the premium charged each year on this policy is over and above the mortality and reserve requirements, and may be used for expenses. In like manner the premium for any other age may be found, by adding 32.1½% of the net premium to itself. The loading added to the net premium, in the case of limited payment life and endowment policies, is one-eighth of itself, plus one-fifth of the net premium for the same

age on the ordinary whole life policy. For example, the net premium, age 35, for the twenty payment life policy, is \$29.85, and one-eighth of this \$3.73, plus one-fifth of \$21.08, or \$1.22, gives a loading of \$7.95, which added to \$29.85, gives \$37.80, the premium actually charged. For the twenty year endowment policy, with twenty annual premiums, age 35, the net premium is \$11.97. By the same rule, adding \$5.24, and \$1.22, gives the loading \$9.46, and the premium, \$51.43, now charged by the Northwestern Mutual.

In the Union Central the method of loading differs from that of the Northwestern Mutual, in that the net premiums are based on an interest earning assumption of 3½%, and a slightly different choice of the factors. It will be considered more in detail in another place in this report.

SAVING FROM LOADING FOR EXPENSES.

These facts have been stated to show that there is, or should be, a third important source of saving, under a prudent management, namely saving from loading for expenses. It is proper that the loading added should be sufficient to meet every legitimate expense and a liberal estimate is made. If any excess exists at the end of the year, such excess should be returned to the individual policy holder, in the ratio in which his policy contributed to the total overcharge or expense surplus. This is the third important source of saving.

The Northwestern Mutual reports for the year ending December 31st, 1905, the loading expense portion of the premiums to be \$6,403,060, the actual insurance expenses \$5,156,504, leaving a gain from loading of \$1,246,556, the expense incurred being about 80½% of the loading provided for same.

LAPSES AND SURRENDERS.

When a policy holder defaults in payment of premium and his policy lapses before it acquires a surrender value, under the rules of the company he loses the entire reserve. The non-forfeiture laws of many states provide that the policy shall have a surrender value after the payment of three full annual premiums; but this surrender value is considerably less than the reserve value, espe-

cially in the early years of the policy. When the insured surrenders his policy the entire reserve liability of the company is released and the excess of this reserve over the value granted the insured by way of cash, paid up insurance, extended insurance or any other benefit is the measure of the loss to the policy holder. This is called a surrender charge. The Northwestern Mutual makes a surrender charge of the entire reserve until three annual premiums have been paid, after which the charge is \$15.00 per one thousand of the face of the policy, decreasing by \$1.25 per \$1,000 each year. By the operation of this rule after fifteen years from the date of issue, the surrender value of the policy is equal to the full reserve.

The following table illustrates the loss sustained by a policy holder in case of lapse or surrender within the first fifteen years on a policy issued at age thirty-five on the ordinary life plan, for \$10,000, annual premium \$279.30.

SURRENDER CHARGES ON AN ORDINARY LIFE POLICY, AGE 35, AMOUNT \$10,000.

Years in force when lapsed or surrendered	1	2	3	4	5
Reserve released by lapse or surrender	\$129	\$261	\$398	\$538	\$682
Amount granted the insured	0	0	240	400	550
Surrender charge or loss sustained by insured . . .	129	261	158	138	132

6	7	8	9	10	11	12	13	14	15
\$829	\$981	\$1,137	\$1,297	\$1,460	\$1,628	\$1,799	\$1,974	\$2,152	\$2,333
710	880	1,040	1,220	1,390	1,570	1,760	1,940	2,130	2,330
119	191	97	77	70	58	39	34	22	3

It thus appears that the insured would sustain the maximum loss of \$261 by failing to pay the third premium. Since the first dividend is paid at this time, but contingent on the payment of the third premium, he would lose that also. The Northwestern Mutual for the year 1905 reports as total reserve released on lapsed and surrendered policies, \$5,519,597, amounts granted insured on same \$5,040,401, a loss to the insured of \$539,196. For the Union Central reserves released \$637,829, amounts granted \$539,326, difference \$98,503.

The report for the thirty-five companies doing business in this state is, total reserve released by lapse and surrender \$58,400,249, amounts granted on the same, \$43,967,457, total loss to the insured of \$14,432,792.

THE SOURCES OF SURPLUS.

To recapitulate—the saving from mortality, gain from excess interest, saving in expense from loading and gains from lapsed and surrendered policies are the chief sources from which the surplus is derived. We wish to emphasize that the surplus is a fund entirely apart from the reserve. Upon the integrity of the latter depends the solvency of an insurance company. If the reserve is intact, the whole surplus might be dissipated without disturbing the ability of the company to meet its policy obligations as they mature. The insurance companies have been quick to recognize this fact and can hardly escape the conclusion that the accumulation of these gigantic surplus funds for which there is no strict accountability, is the result of well laid plans of shrewd insurance managers. This immense fund affords opportunity to carry out the most lavish and liberal plans of expense management, without danger of arousing the attention of the policy holders. In the year 1905 alone, the following surplus gains were reported through the four sources above described; the Northwestern Mutual, \$6,921,044; the Union Central, \$2,183,172, and the thirty-five companies doing business in this state, about \$60,000,000. The total surplus held at the present time by these thirty-five companies is officially reported to be in excess of \$330,000,000, that of the Northwestern being about \$34,690,000, and the Union Central about \$8,140,000.

LOSSES BY FORFEITURE.

The problem of life insurance is to increase its social efficiency by extending its benefits to the greatest possible number, eliminate forfeitures, and reduce the cost to the lowest possible figure, as well as to adjust the cost on the most equitable basis as between the members of the company.

That the lapse rate is high and that there is a large amount of money lost by people who allow their policies to lapse before any returns beyond the value of the term insurance, are secured, is a matter of common knowledge.

The following table compiled from the reports of the insurance

department, shows the average size of policies of the Northwestern Mutual Life Insurance Company:

Year.	Issued.	In force.	Terminated by		
			Death.	Lapse.	Surrender.
1894	\$2,373	\$2,267	\$2,380	\$2,168	\$1,696
1895	2,402	2,344	2,337	1,974	1,613
1896	2,345	2,330	2,427	2,017	1,702
1897	2,379	2,318	2,551	1,892	1,471
1898	2,525	2,321	2,464	1,873	1,627
1899	2,535	2,742	2,479	1,920	1,615
1900	2,553	2,352	2,479	1,971	1,667
1901	2,406	2,369	2,481	1,941	1,762
1902	2,403	2,366	2,501	2,020	1,874
1903	2,357	2,366	2,314	1,879	2,175
1904	2,418	2,364	2,700	1,878	2,211
1905	2,572	2,382	2,942	1,844	2,223

Similar computations for other companies show like results.

From this table it appears that the averages of policies for 1905 were: Issued, \$2,572; in force, \$2,382; terminated by death, \$2,942; lapsed, \$1,844; and surrendered, \$2,223.

It is clear that the average policies lapsed and surrendered are much smaller than the average policies written or in force. This raises the following suggestive questions:

1. Are these policies carried by people of limited means?
2. Are these lapses and surrenders due to inability to pay the premiums?

If the holders of such policies receive their just dues at the time of termination, no injustice is done, but under the harsh conditions contained in many of the policies now in force, great injustice may be done—and has been done—to thousands of holders of small policies.

It was the desire of the committee to determine by concrete facts just what was paid by policy holders, and what was received by them as benefits for the money paid. For this purpose, schedules were sent to all the companies doing business in this state, calling for a detailed history of the policies issued during a certain specified period, showing the number remaining in force, the number terminated each year, together with the manner of termination and the amounts paid on death, maturity or surrender and as dividends; also, the total amount of premiums paid, and the amount carried to the policy holders' credit as a reserve.

The schedules were prepared for different classes of policies as

follows: 1. Ordinary Life; 2. Limited Payment Life; 3. Endowment; 4. Term; 5. All others; and 6. Recapitulation.

For the purpose of testing the argument made by some companies that "holders of deferred dividend policies are much more persistent than annual dividend policy holders," these were again divided into annual and deferred dividend classes.

The tables following were compiled from schedules furnished by twenty companies doing business in this state. These schedules cover in detail, the history of 5,905 policies issued during the month of June, 1885. Of these 2,222 or 37.59% were issued on the annual dividend plan and 3,683 or 62.41% were on the deferred dividend plan.

The table below shows the percentage terminated by lapse each year and total for the period, of annual and deferred dividend policies.

POLICIES ISSUED IN JUNE, 1885, TERMINATED BY LAPSE.

Year.	2,222 policies issued on the annual divi- dend plan.	3,683 policies issued on the deferred divi- dend plan.
	Per cent of issue lapsed.	Per cent of issue lapsed.
1885	4.64	6.82
1886	15.00	16.70
1887	2.21	4.48
1888 .....	.68	1.47
1889 .....	.63	1.09
1890 .....	.18	.43
1891 .....	.27	.51
1892 .....	.36	.18
1893 .....	.18	.35
1894 .....	.09	.08
1895 .....	.05	.11
1896 .....		.03
1897 .....		.03
1898 .....	.05	.03
1899		
1900 .....	.05	
1901 .....	.05	.03
1902 .....		.03
1903		
1904 .....	.05	
1905		
Total	24.49	32.37

From the foregoing table it appears that in the annual dividend class 4.64% lapsed on account of failure to pay the first year's

premium, while in the deferred dividend class 6.82% lapsed because of failure to pay the full first year's premium. In the annual dividend class 15% failed to pay the second year's premium while in the deferred dividend class 16.70% failed to pay the second year's premium. In the annual dividend class 2.21% failed to pay the third year's premium while in the deferred dividend class 4.48% failed to pay the third year's premium; and so on through the entire period. The lapse rate appears to be considerably higher in the deferred dividend class. The totals show a difference of about one-third in favor of annual dividends.

It has been suggested that perhaps it is not safe to draw such important conclusions from the record of policies issued during a single month, and that varying economic conditions might give different results for other periods.

Fortunately, the schedules also called for the total number only of policies issued during the years 1885, 1890, 1895 and 1900, together with the number terminated and the method of termination for each year. The results, as shown in the tables below, prove conclusively that the lapse rate is higher among deferred dividend policies than among annual dividend policies.

ISSUE OF 1885.

Year.	Per cent. of annual dividend policies lapsed.	Per cent. of deferred dividend policies lapsed.
1885	2.32	14.07
1886	12.55	13.49
1887	5.22	6.84
1888	1.51	2.61
1889 .....	.67	1.03
1890 .....	.55	.83
1891 .....	.32	.61
1892 .....	.31	.46
1893 .....	.30	.51
1894 .....	.29	.54
1895 .....	.18	.20
1896 .....	.17	.11
1897 .....	.14	.15
1898 .....	.13	.....
1899 .....	.11	.08
1900 .....	.15	.08
1901 .....	.16	.05
1902 .....	.11	.03
1903 .....	.11	.02
1904 .....	.09	.....
1905 .....	.07	.....
Total	25.52	41.51

ISSUE OF 1890.

Year	Per cent. of annual dividend policies lapsed.	Per cent. of deferred dividend policies lapsed.
1890	4.69	13.60
1891	13.87	17.54
1892	3.76	6.46
1893	1.86	2.13
1894	1.20	1.22
1895	.76	1.05
1896	.49	.55
1897	.45	.72
1898	.37	.24
1899	.29	.13
1900	.15	.05
1901	.19	.07
1902	.08	.06
1903	.06	.04
1904	.00	.02
1905	.08	.01
Total	28.39	43.80

ISSUE OF 1895.

Year	Per cent. of annual dividend policies lapsed.	Per cent. of deferred dividend policies lapsed.
1895	5.35	13.57
1896	16.32	20.45
1897	3.06	7.47
1898	1.64	1.77
1899	.83	.33
1900	.46	.25
1901	.39	.17
1902	.21	.13
1903	.15	.13
1904	.20	.13
1905	.28	.06
Total	29.79	50.46

ISSUE OF 1900.

Year.	Percent of annual dividend policies lapsed.	Percent of deferred dividend policies lapsed.
1900	4.51	5.51
1901	11.70	11.70
1902	3.72	4.28
1903	1.28	.80
1904	.91	.30
1905	.69	.20
Total	22.87	25.88

In some of the above tables there appears to be a slight difference in favor of deferred dividend policies in the later years of the policy, but the table is overwhelmingly in favor of annual dividends.

PREMIUMS AND RETURNS.

A great economic loss in life insurance is due to the large number of policies which terminate by lapse during the early years of the policy, before the surrender values take effect. The only benefit to the insured resulting from such policies, is the value of the term insurance for such time as the policies have been in force. In case of endowment policies this is only a small fraction of the premium paid.

Of the 5,905 policies issued during the months of June, 1885, 354 lapsed on account of failure to pay the first year's premium in full. The total premiums paid on these 354 policies amounted to \$15,350. The value of term insurance at gross term rates for the time the policies remained in force was \$9,282, or about 60.46% of the premiums paid.

There were 948 policies lapsed on account of failure to pay the second year's premium. The total of the premiums paid on these policies was \$87,093. The value of the term insurance was \$36,085 or about 41.44% of the premiums paid.

This includes policies of all kinds and for all ages. If figures were obtained for endowment policies only, this difference between the premiums paid and the value of the term insurance would be even more marked. But taking the amounts as they are and considering that no surrender values are paid on the policies that lapse the first and second year, it is clear that there is a vast amount of money collected by insurance companies for which no benefit is received by the policy holder.

Next to the loss by forfeiture resulting from policies lapsed before the surrender value takes effect, is the loss resulting from an excessive surrender charge.

The only justification offered for a surrender charge is the claim that if the reserves are paid in full upon surrender, it will result in adverse selection to the company, and that it is legitimate to scale the surrender value in such amount as will cover the cost of bringing in another member equally good to the company. In many cases, however, the surrender charge was deter-

mined, not by what it would cost to bring in a new member, but by "what the traffic would bear."

It was stated in the testimony that the present surrender charge made by the Northwestern Mutual is amply sufficient to take care of any adverse selection that might result from the surrender of policies before maturity. This surrender charge is much less than forfeitures on deferred dividend policies. Some authorities advocate the entire abolition of the surrender charge, on the ground that the surrender of policies will not result in "adverse selection," and that a policy holder should have the right to withdraw the reserve deposit or accumulation on his policy at any time.

The experience of deferred dividend contracts compared with annual dividend contracts, as shown in table 1, *supra*, leads to but one conclusion; namely, if deferring dividends does not deter policy holders from lapsing, scaling down the surrender values does not deter members from surrendering.

EFFECTIVE PUBLICITY.

A contract of the importance of one involving insurance for life or a long term of years, and in many cases in the aggregate amounting to more than any other single transaction during the life of the insured, would seem to deserve the fullest examination and understanding of its provisions on his part.

The important questions in connection with such a contract are what is the insured required to pay each year for death claims, what for expenses, and what return does the company promise on the excess moneys deposited with it? In none of the policies of life insurance which have been submitted to the committee are these essential facts set forth; and yet, these items are absolutely determined upon in advance by the company before any policy is issued by its adoption of tables of expense charges and of mortality and the assumption of a given rate of interest. Nor does it seem desirable that these items should be set forth merely by naming the table and rate of interest employed, leaving them to computation on the part of the insured. It is safe to say that outside of the actuaries of the company and a very few others who make a special study of the subject, no one would get any benefit from such a statement. But the facts can be set forth in dollars

and cents for each particular policy. If a table setting forth these facts is required to be placed before the prospective policy holder and this is actually done, it would go far towards placing the entire responsibility of choice, as between companies and plans of insurance, on the good business judgment of the policy holder. While the companies always have demanded freedom of action as absolutely necessary to progress and reform in insurance, they have with equal unanimity expressed themselves in favor of publicity. They opposed many provisions in the bills recommended by the New York committee as interfering with their freedom of development, and doubtless would find cause for criticism in any measure which might be proposed. But, if the officers and agents of the companies are sincere in their declaration for publicity, they cannot consistently oppose a provision requiring them to place before the prospective policy holder, at the time when he can make best use of it, the most essential facts with reference to the contract he is asked to enter into, enabling him to determine the portion of his payments devoted to insurance protection and the portion to insurance expenses of management.

Freedom of action should be granted the company in fixing the expense, the mortality and reserve provisions at pleasure, but within limits recognized by law as safe and reasonable. The insured is entitled to a full and frank statement of what is to be done with his money. This would have a most stimulating tendency in the direction of economical management.

TABLE SHOULD BE REQUIRED TO BE INSERTED IN POLICY.

A table should be required to be inserted in every policy showing in dollars and cents separately for each year during the possible history of the policy, the amounts set apart to provide for expenses and for death claims, and the balance belonging to the insured being the deposit or reserve. The insured would then be able to compare the amount charged to provide for expenses with the amount charged to provide for death claims, which latter is the real measure of the insurance furnished. Companies would thus be compelled to offer contracts of insurance which would appeal to the prospective policy holder as being fair and equitable in the charges so made.

INSURANCE COMPANIES ARE BUSINESS INSTITUTIONS.

An insurance company is not an eleemosynary institution; premiums are based on cold scientific facts. It is therefore clear that no good reason can be advanced as an objection to this plan, unless it can be successfully contended that it is necessary and justifiable to conceal from the policy holder the disposition which is being made of his money; that is, the premiums paid in. We do not believe it necessary to sell policies of insurance by subterfuge or by withholding from the insured any of the facts relating to the expense incurred in securing or maintaining his policy. It is the privilege of the applicant to know and decide what he is willing to pay for insurance protection and insurance management, and to reject any proposition if it cannot be furnished upon what seems to him reasonable terms. We do not believe that the state should permit any concealment of the facts or misrepresentations to the insured. To question this position is equivalent to a declaration that the policy holder is not entitled to know how his money is being spent. Such a proposition is intolerable.

It is safe to assume that fully ninety per cent of the policy holders have no knowledge of the sources of dividends received by them. Tables and comparisons which follow, together with the fact that the returned dividends are used as an advertising asset demonstrate to a certainty that high premiums are collected by insurance companies upon participating policies, not because the interests or safety of the business require it, but chiefly that the companies may have funds for extravagant commissions, and for dividends as an advertising asset.

But it is urged by officers of insurance companies, and some insurance experts that this return to the policy holder of a portion of excessive charges facilitates the writing of new business and satisfies the old policy holders. This, if so, can only be true where the solicited citizen and the policy holder do not know that the moneys returned are but a portion of excessive premium payments collected. Neither common experience nor the testimony taken before this committee justifies the belief that insurance agents, in laying before the prospective participating policy holder the dividends paid by his company, make a practice of informing him that these dividends represent but a portion of excessive charges collected from the policy holders.

We do not believe that a business of such magnificent proportions, with all its possibilities for good in the protection of American homes, requires the arts of deception to either promote or popularize it. We are fully convinced that the premiums now charged are excessively high, and can be reduced in accordance with the suggestions made in this branch of the report, without retarding the healthy growth of the business, or affecting the safety of the companies.

TABLE SHOWING EXPENSE AND MORTALITY PROVISIONS AND DEPOSIT RECOMMENDED.

The committee recommends that a law be enacted requiring that in every policy of insurance written or issued in this state after 1907 there shall appear an agreement and table of the following tenor:

"The company agrees that during the term of this policy, the premium payments herein provided shall be credited when paid as of the policy anniversary to the individual account of the insured, and on each policy anniversary a credit shall be made of interest on the balance, herein called the "deposit" at the last preceding policy anniversary, and charges shall be made for the ensuing year against such account, for the provision for insurance expense, herein called the "expense charge," and the provision for death claims, herein called the "mortality charge." The expense charge, mortality charge and deposit for the beginning of each policy year, according to the table of mortality, and interest at the rate of per centum per annum, are as follows:

10—I.

Policy Year.	Expense charge.	Mortality charge.	Deposit.	Policy year.	Expense charge.	Mortality charge.	Deposit.
1	21	.....	.....	.....
2	22	.....	.....	.....
3	23	.....	.....	.....
4	24	.....	.....	.....
5	25	.....	.....	.....
6	26	.....	.....	.....
7	27	.....	.....	.....
8	28	.....	.....	.....
9	29	.....	.....	.....
10	30	.....	.....	.....
11	31	.....	.....	.....
12	32	.....	.....	.....
13	33	.....	.....	.....
14	34	.....	.....	.....
15	35	.....	.....	.....
16	36	.....	.....	.....
17	37	.....	.....	.....
18	38	.....	.....	.....
19	39	.....	.....	.....
20	40	.....	.....	.....
				etc.			

The effect of the foregoing requirement may be briefly summed up as follows:

The company must print in the policy a table showing the policy holder how much of his money is set apart each year for expenses of insurance management, and how much is set apart for insurance protection. The company must also state in tabular form for each year the discounted terminal reserve or deposit necessary to mature the policy according to its terms.

We exhibit below such a table, as it would appear in the policy, computed for an ordinary life policy issued at age 35, for \$1,000. The assumptions, made merely by way of illustration, in the computation of the annual premium \$26.15, are as follows:

First: That the company will earn 3% interest on its funds.

Second: That it will experience a mortality equal to that shown by the American Experience Table.

Third: That it will expend in each year for insurance management on account of this policy \$5.07 available at the beginning of the policy year.

REGULAR FULL RESERVE PLAN.

American Experience Mortality Table, Interest Rate, 3%.

Ordinary Life Policy, Amount \$1,000, Age 35, Annual Premium \$26.15.

Policy year	Expense charge.	Mortality charge.	Deposit.	Policy year.	Expense charge.	Mortality charge.	Deposit.
1	\$5.07	\$8.57	\$12.51	31	\$5.07	\$17.85	\$226.15
2	5.07	8.59	25.37	32	5.07	18.64	241.38
3	5.07	8.61	38.60	33	5.07	19.44	257.23
4	5.07	8.64	52.20	34	5.07	20.23	273.65
5	5.07	8.67	66.17	35	5.07	21.21	297.22
6	5.07	8.72	80.52	36	5.07	22.13	324.09
7	5.07	8.76	95.26	37	5.07	23.03	353.78
8	5.07	8.82	110.27	38	5.07	23.91	385.67
9	5.07	8.89	125.87	39	5.07	24.75	420.42
10	5.07	8.98	141.75	40	5.07	25.51	457.87
11	5.07	9.07	158.02	41	5.07	26.21	497.68
12	5.07	9.21	174.63	42	5.07	26.88	540.75
13	5.07	9.35	191.60	43	5.07	27.55	587.84
14	5.07	9.54	208.80	44	5.07	28.22	637.39
15	5.07	9.75	226.49	45	5.07	28.87	689.13
16	5.07	10.01	244.35	46	5.07	29.65	743.72
17	5.07	10.31	262.47	47	5.07	30.33	799.42
18	5.07	10.62	280.80	48	5.07	31.04	857.85
19	5.07	10.96	299.34	49	5.07	31.75	919.17
20	5.07	11.36	318.04	50	5.07	32.09	983.43
21	5.07	11.77	336.89	51	5.07	32.88	1050.51
22	5.07	12.24	355.89	52	5.07	33.49	1120.15
23	5.07	12.71	375.19	53	5.07	34.48	1192.10
24	5.07	13.24	394.98	54	5.07	35.53	1266.67
25	5.07	13.79	415.10	55	5.07	36.27	1344.21
26	5.07	14.38	435.19	56	5.07	36.84	1425.83
27	5.07	15.01	455.23	57	5.07	37.87	1510.74
28	5.07	15.67	475.18	58	5.07	39.01	1599.81
29	5.07	16.35	495.02	59	5.07	40.75	1693.37
30	5.07	17.08	507.69	60	5.07	41.78	1792.13
				61	5.07	0.00	17.87

We also indicate the first twenty years of a similar table, as it would appear in the policy, under the Select and Ultimate method, Full and Modified Preliminary Term plans, and other methods chosen to illustrate the flexibility of the plan proposed. Explanations and schedules further illustrating these tables will appear in the appendix to the report. The policy in each case is an ordinary whole life for \$1,000, issued at age 35 with annual premium of \$26.15. The rate of interest assumed is 3%.

SELECT AND ULTIMATE METHOD.

American Experience, Select and Ultimate Mortality Table, interest Rate, 3%.

Ordinary Life Policy. Amount \$1,000. Age 35. Annual Premium \$26.15.

Policy year.	Expense charge.	Mortality charge	Deposit.	Policy year.	Expense charge.	Mortality charge	Deposit.
1	\$15.81	\$1.32	\$6.02	11	\$5.07	\$9.07	\$158.02
2	5.07	5.61	21.67	12	5.07	9.21	171.63
3	5.07	6.47	36.93	13	5.07	9.35	191.69
4	5.07	7.35	51.77	14	5.07	9.54	208.83
5	5.07	8.24	63.17	15	5.07	9.75	226.49
6	5.07	8.72	80.52	16	5.07	10.01	244.35
7	5.07	8.76	95.26	17	5.07	10.31	262.47
8	5.07	8.82	110.37	18	5.07	10.62	280.80
9	5.07	8.89	125.87	19	5.07	10.96	299.34
10	5.07	8.98	141.75	20	5.07	11.35	318.04

The rates of mortality assumed in computing the above table are as follows:

First year of insurance, 50 per cent of the full American Experience rate.
 Second year of insurance, 65 per cent of the full American Experience rate.
 Third year of insurance, 75 per cent of the full American Experience rate.
 Fourth year of insurance, 85 per cent of the full American Experience rate.
 Fifth year of insurance, 95 per cent of the full American Experience rate.
 Thereafter, 100 per cent of the full American Experience rate.

It will be noted that after the fifth year this table is identical with that heretofore given, and it so continues through the whole period.

FULL AND MODIFIED PRELIMINARY TERM PLANS.

American Experience Mortality Table, Interest Rate 3%.

Ordinary Life Policy. Amount \$1,000. Age 35. Annual Premium \$26.15.

Policy year.	Expense charge.	Mortality charge.	Deposit.	Policy year.	Expense charge.	Mortality charge.	Deposit.
1	\$17.46	\$3.69	.....	11	\$4.41	\$9.19	\$147.41
2	4.41	8.71	13.03	12	4.41	9.33	161.21
3	4.41	8.72	26.44	13	4.41	9.48	181.43
4	4.41	8.76	40.21	14	4.41	9.66	198.95
5	4.41	8.79	54.37	15	4.41	9.88	216.78
6	4.41	8.81	68.90	16	4.41	10.15	234.87
7	4.41	8.88	83.83	17	4.41	10.44	253.22
8	4.41	8.94	99.14	18	4.41	10.76	271.80
9	4.41	9.01	114.85	19	4.41	11.12	290.57
10	4.41	9.10	130.93	20	4.41	11.51	309.52

PLAN PROVIDING EXPENSE CHARGES IN ACCORDANCE WITH ACTUAL CONDITIONS.

The next plan provides for a loading or expense charge, available at the beginning of the policy year, as follows:

First year, \$14.50; second year, \$8.50; third year, \$6.50; fourth year, \$8.50; fifth, sixth, seventh, eighth, ninth and tenth years, each \$6.50; every year thereafter throughout the life of the policy \$3.00. It would enable the company to provide for nine renewal commissions, the first and third being higher than the others as an inducement to the agent to collect the second and fourth premiums which are ordinarily the most difficult ones to renew. After the renewal commission period is over the expense provision drops to \$3.00 per annum.

American Experience Mortality Table, Interest Rate, 3%.

Ordinary Life Policy. Amount \$1,000. Age 35. Annual Premium, \$26.15.

Policy year.	Expense charge.	Mort'lity charge.	Deposit.	Policy year.	Expense charge.	Mort'lity charge.	Deposit.
1	\$14.50	\$8.66	\$2.92	11	\$3.00	\$0.45	\$124.48
2	8.50	8.71	12.02	12	3.00	9.58	141.78
3	6.50	8.75	23.28	13	3.00	9.73	159.45
4	8.50	8.82	32.81	14	3.00	9.92	177.46
5	6.50	8.88	44.56	15	3.00	10.16	195.78
6	6.50	8.95	56.60	16	3.00	10.42	214.38
7	6.50	9.02	68.93	17	3.00	10.73	233.23
8	6.50	9.12	81.53	18	3.00	11.05	252.33
9	6.50	9.22	94.41	19	3.00	11.42	271.63
10	6.50	9.35	107.54	20	3.00	11.82	291.11

PRELIMINARY TERM MODIFIED TO LIMIT THE EXPENSE ALLOWANCE TO THAT PROVIDED UNDER THE 20 PAYMENT LIFE POLICY ON THE FULL PRELIMINARY TERM PLAN.

We herewith show the table as it would appear in the policy for a modified preliminary ten-year endowment insurance for \$1,000, issued at age 35 with annual premium \$101.23, based on the American Experience Table with 3% interest. The expense charges are limited in accordance with the following provision for reserves. If the premium charged for term insurance under a limited payment preliminary term or endowment preliminary term policy exceeds that charged for like insurance under a twenty

payment life preliminary term policy of the same company, the reserve thereon at the end of any year including the first, shall not be less than the reserve on a twenty payment life preliminary term policy issued in the same year and at the same age, together with an amount which shall be equivalent to the accumulation of a net level premium sufficient to provide for a pure endowment at the end of the premium payment period, equal to the difference between the value at the end of such period of such a twenty payment life preliminary term policy, and the full reserve at such time of such a limited payment or endowment policy.

At the end of the premium payment period, ten years, the value of the above ten year endowment policy is \$1,000; and the value of the twenty payment life preliminary term policy issued in the same year and at the same age is \$212.28. The difference is \$787.72 and the net level annual premium sufficient to provide for this as a pure endowment is \$60.53.

Preliminary Term Modified on 20 Payment Life Basis, American Experience Mortality Table, Interest Rate 3%.

Ten Year Endowment. Amount \$1,000. Age 35. Annual Premium, \$101.73

Policy year.	Expense charge.	Mortality charge.	Deposit.
1	\$32.51	\$8.14	\$61.08
2	9.73	7.48	147.43
3	9.73	6.78	237.07
4	9.73	6.03	330.15
5	9.73	5.22	426.84
6	9.73	4.35	527.30
7	9.73	3.39	631.72
8	9.73	2.36	740.31
9	9.73	1.24	853.28
10	9.73	.....	970.87

FIRST PREMIUM HIGHER THAN SUBSEQUENT PREMIUMS.

The following plan which is based on the American Experience mortality table and provides the full net premium legal reserves, calls for a first premium of \$35.65 and subsequent annual premiums of \$25.65. The total present value of the expense charges is the same as in the preceding cases based on the American Experience table.

American Experience Mortality Table, Interest Rate, 3%:

Ordinary Life Policy. Amount \$1,000. Age 35. Annual Premium, 1st—\$35.65; Others—\$25.65.

Policy year.	Expense charge.	Mortality charge.	Deposit	Policy year.	Expense charge.	Mortality charge.	Deposit.
1	\$11.57	\$8.57	\$12.51	11	\$1.57	\$9.07	\$178.02
2	4.57	8.50	25.37	12	4.57	9.21	171.63
3	4.57	8.61	38.69	13	4.57	9.35	191.69
4	4.57	8.61	52.20	14	4.57	9.54	208.39
5	4.57	8.67	66.17	15	4.57	9.75	226.49
6	4.57	8.72	80.52	16	4.57	10.01	244.35
7	4.57	8.76	95.26	17	4.57	10.31	262.47
8	4.57	8.82	110.37	18	4.57	10.62	280.80
9	4.57	8.89	125.87	19	4.57	10.96	299.34
10	4.57	8.98	141.75	20	4.57	11.36	318.04

ENDOWMENT INSURANCE.

We next pass to the consideration of endowment insurance policies and exhibit several tables as they would appear in the policy. The first table is for a ten-year endowment policy issued at age thirty-five for \$1,000. The assumptions, made merely by way of illustration, in the computation of the annual premium, \$98.11, are as follows:

First. That the company will earn 3½% interest on its fund.

Second. That it will experience a mortality equal to that shown by the American Experience Table.

Third. That it will expend in each year for insurance management on account of this policy the following amounts available at the beginning of the policy year: 1st year, \$28; 2nd year, \$14; 3rd year, \$7; 4th year, \$14; 5th, 6th, 7th, 8th, 9th and 10th years each, \$7.

Policy year.	Expense charge.	Mortality charge.	Deposit.
1	\$28.00	\$8.00	\$63.02
2	14.00	7.50	149.80
3	7.00	6.80	230.04
4	14.00	6.12	316.68
5	7.00	5.30	412.95
6	7.00	4.43	514.08
7	7.00	3.47	619.71
8	7.00	2.42	730.00
9	7.00	1.27	845.48
10	7.00	.....	966.18

The first column shows the "Policy Year;" the second the "Expense Charge" or amount provided at the beginning of the policy year for the insurance expenses for the policy year; the third the "Mortality Charge," or amount provided at the beginning of the policy year for mortality for the policy year; the fourth shows the "Deposit," which is the balance to the credit of the policy after the two preceding items have been provided for at the beginning of the policy year. This table shows the applicant for insurance, that during the fifth policy year the company agrees to expend not more than seven dollars for insurance management on account of this policy, and that a charge for death claims for the policy year of \$5.31 will be made at the beginning of the year. There is a deposit at this time to the credit of the policy amounting to \$412.96. Similarly for any other year in the history of the policy.

FURTHER ANALYSIS OF THE TABLE.

A footing of the items in this table shows that the total premium payment called for contingent upon the survival of the insured is \$981.10 and that this sum is to be apportioned as follows: \$105 for expenses of insurance management; \$45.40 for death claims, or insurance protection; and the balance \$830.70 for the reserve deposit. The items going to make up the latter are supposed to be invested within a reasonable time, but it is the practice of companies to charge the expense attendant upon the investment and care of this fund against the interest earnings realized upon them. In other words, investment expenses are charged against investment earnings. This is a very important point, for it emphasizes the fact that the items under expense charge are used for so-called insurance expenses of management only, such as agents' commissions, home office expenses, traveling expenses, taxes and expenses of inspection of risks. The expenses attendant upon medical examination and inspection of risks might properly be charged against the gains from mortality, and investment expenses and taxes against the gain from interest.

The point to be brought out particularly, however, is that no portion of the \$105 provided for expenses is used for the care of the investment of the reserve deposits of \$830.70. The policy holder will probably notice that in this schedule the insurance

expense is in excess of the cost of insurance protection and perhaps conclude that insurance management comes dear, if it is more than the insurance itself. A total collection of \$105 for insurance expenses, while the total collection for death claims is only \$45.40, would seem to indicate that the expense assumption ought to be sufficient, but we are aware of no insurance company which keeps its insurance expenses in this form of policy within the figures set forth therein. It was admitted in the testimony before the committee that the loadings for the expenses and other contingencies on the endowment policies were much too large. To make this clear, we will next exhibit the corresponding actual schedule of the Equitable Life of New York on this same policy.

Schedule Showing an Analysis of a Participating Ten Year Endowment Policy Issued by the Equitable, American Experience Table 3%, Age 35, Amount \$1,000. Annual Premium, \$107.70.

Policy year.	Expense charge	Mort'lity charge	Deposit.
1	\$18.40	\$7.96	\$81.34
2	18.40	7.31	165.77
3	18.40	6.62	253.42
4	18.40	5.89	344.43
5	18.40	5.10	428.96
6	18.40	4.26	527.17
7	18.40	3.32	629.27
8	18.40	2.32	745.43
9	18.40	1.21	855.89
10	18.40	.....	970.87
Totals	\$181.00	\$43.99	.....

Each annual premium \$107.70, is loaded for insurance and contingent expenses \$18.40. The table shows how each premium is apportioned as regards insurance expenses, death claims and reserve deposits, indicating that most of the money is deposited for investment, and that the insurance feature is comparatively small. The footings show that the total possible expenditure for insurance management as far as loading is concerned, is \$181.00, while the collections for death claims amount to only \$43.99. Since the expense for the care of the reserve deposit of \$849.01 is charged against the earnings of such funds, and does not come

out of the loadings, it appears that the company, in the event of the survival of the insured, collects for caring for the insurance more than four times what it collects for the cost of the insurance. In particular, during the last three years of the policy, the company collects over \$55 to care for \$3.53 worth of insurance.

NON-PARTICIPATING TEN YEAR ENDOWMENT POLICY OF THE
EQUITABLE.

This company adopted in 1905, a new table of non-participating rates, and for this same policy the annual premium is \$95.04, with an expense loading of \$8.02, or more than \$10.00 less than in the preceding case. For the sake of comparison, we append a schedule, showing a division of the premium payments as before.

Analysis of Equitable Non-Participating Ten Year Endowment Policy, American Experience Table 3.½%, Age 35, Amount \$1,000, Annual Premium \$95.04.

Policy year.	Expense charge.	Mortality charge	Deposit.
1	\$8.02	\$7.94	\$79.08
2	8.02	7.32	161.55
3	8.02	6.64	247.59
4	8.02	5.92	337.36
5	8.02	5.13	431.06
6	8.02	4.29	528.88
7	8.02	3.36	631.05
8	8.02	2.35	737.81
9	8.02	1.22	849.44
10	8.02	.....	966.18
Totals	\$80.20	\$44.17	.....

The footings show that in the case of the non-participating policy the company has arranged for an expense provision of \$80.20, almost double the cost, \$44.17, of the insurance furnished. It costs no more to care for the investment of the reserve deposits of \$849.01 on the preceding participating policy, and the surplus savings derived from interest and mortality must be about the same in each case.

The conclusion we draw from this comparison is that unless the company is avowedly selling this policy at a loss, it must be charging the participating policy holder \$103.80, the difference

between the expense total in the participating and non-participating cases, simply in order, by some method of apportionment, to return it in whole or in part in the form of an alleged dividend. That only a part of it is returned would follow, in case the company allowed its agent a higher commission on participating than on non-participating business, a practice which is very common.

RESERVES MADE UP FROM SURPLUS OF OLD POLICY HOLDERS.

It should be remarked that while the annual expense provision in the Equitable ten year endowment policy is \$18.40, it has not been the practice of the company to keep within this provision. On the present scale of commissions paid to agents, the expense loadings for two or three years would have to be anticipated. For example, a commission of 35% of the first premium would require \$37.70, from which it appears, deducting \$18.40, that this expenditure alone would create a deficit in the reserve of \$19.30. Other expenditures increase this deficit, with the practical result that the reserves during the early years of the policy, are made up from the surplus of the older policy holders. The actuary of the Northwestern Mutual testified that it took about three years before the expense attendant upon getting new business was equalized by the loadings, enabling the policy to supply its own reserve, without borrowing from the surplus of other policy holders. Similar remarks apply to the expense charge in the table illustrating the Equitable non-participating ten year endowment policy. The annual expense loading here is \$8.02, and this, together with all gains from interest, mortality and other sources on the policy, would not be sufficient to offset the deficit, after expenses of obtaining the business are met. The only alternative is to make up the deficit from the current loading on other policies from the general surplus.

It is the practice of officials and agents of insurance companies to speak of this excess of first year's expenses as causing a deficit in the reserve during the early years of the policy, to be made up from the excess loadings in the first few years within a period of from three to five years. They concede that this is actually done during the first three to five years. The law requires that the company shall be charged, as its liability by which to determine its solvency, with the full legal reserve from

the first year. This reserve, of course, comes from the premium. The first year's expense is invariably far in excess of the loading; and, instead of saying that this causes a deficit in the reserve, it is certainly more correct to say that there is a deficit in the loading which is made up from current loadings on older policies and from the surplus.

It will readily be seen that the possible expense provision on a level premium under the present legal reserve requirement does not in any sense conform to the facts. It is also apparent that if the excess of the first year's expense is made up from the excess of the loadings during the succeeding two to four years, and the loadings are continued during the subsequent years of the policies, the same must be largely in excess of the reasonable requirements for expenses and collected only for the purpose of providing a fund for extravagance or from which to return dividends.

In the preceding illustrations we have chosen policies issued by the Equitable, for the following reasons:

First. Because it is a stock company and is authorized to issue policies both on the participating and stock plan; and

Second. Because the premiums on the participating plan are heavily loaded, and its stock or non-participating premiums are those adopted by a number of representative companies in 1905, and presumably were found, after investigation to be adequate.

From the foregoing comparisons of the loadings in participating and non-participating policies, one of two conclusions is inevitable. Either,

First. The loading in the non-participating policy is excessively low and the policy written at a loss which is borne by the participating policy holders in the company; or

Second. That the loadings in the participating policies are excessively high.

In determining which conclusion is correct, we are mindful of the fact that the profits on the non-participating policies belong, without question, to the stockholders; that the stockholders determine the rate of loadings. We believe that it would be giving to such stockholders attributes of unselfishness not generally possessed by stockholders in corporations, as well as to disregard their business judgment and challenge their official integrity, if we should assume that these stock policies are written at

a loss. Our conclusion is that stock policies are written at a profit, and that the loading in the participating policies is excessively high.

THE VARIOUS BILLS DO NOT INSURE A REDUCTION IN PREMIUMS.

None of the bills heretofore proposed or passed have set a definite limit on the expense provision, although they have all fixed some sort of limitation on the mortality and interest provisions. But the chief source of discontent has arisen in the matter of the expense of insurance management, and this committee would feel that it had not squarely met the real issue if it should evade this point.

The New York law provides a partial limitation for agency expenses, particularly for the first year, by allowing the first five years mortality saving, plus the first year's loading for first year's commissions, and not to exceed $7\frac{1}{2}\%$ of the following nine premiums for renewal commissions. Nothing is said, however, as to how much these loadings shall be. The law, therefore, does not insure a reduction in premiums. In fact, the tendency of this measure will be to increase present premiums in order to obtain a slightly increased loading for agents' commissions in the first year and for renewals. We feel that it is better to fix a sum beyond which the premiums shall not go, no matter what the system, and leave the companies practically to make their own expense adjustment, within such limitations.

LIMITATIONS OF EXPENSE LOADINGS IN PREMIUMS.

The general public has been more free to pass judgment on the expense management of life insurance companies than on other and more technical phases of the subject, chiefly because it comes more readily within the comprehension of the ordinary business man. It is almost universally believed that insurance companies have been too liberal with the money of the policy holders; that they have exercised a most lavish expenditure in reaching out for business, and spent millions to produce an impression of magnificence. These considerations have led the people to look for a reduction in premiums, and we believe a survey of the general conditions justifies this expectation. It is

our opinion that the premiums charged by most companies can be substantially reduced.

PREMIUMS CHARGED ARE EXCESSIVE.

The question before us resolves itself into three parts:

First. Are the premiums charged by most companies unnecessarily large?

Second. To what extent, if any, can they safely be reduced?

Third. How can such a reduction be brought about?

There are several very clear indications that the premiums now charged are too large. Perhaps the most certain evidence is the immense surplus which has been accumulated by insurance companies through the unreturned over-charges made in premiums on deferred dividend policies. The three big New York companies alone hold over \$193,000,000 of undistributed surplus, and all the companies doing business in this state now hold an amount in excess of \$330,000,000. These gains are derived chiefly from the accumulated and undistributed dividends, which arise in turn from excessive premiums charged the policy holders. Another circumstance pointing very distinctly to high premium collections, is the extravagant initial commissions, and the excessive renewal interests received by the insurance agents, the high and rapidly increasing salaries of officers, and in general the lavish expenditure of funds which seem to be inexhaustible in supply.

PREMIUM RATES OF THE THREE BIG NEW YORK COMPANIES UNNECESSARILY HIGH.

If the premiums collected by the Equitable were not too high, the company would not now have an undistributed surplus of over \$62,000,000, nor would it have paid salaries of from \$50,000 to \$100,000 to its officers, and fabulous sums to agents to procure new business. If the premiums collected by the Mutual Life were not calculated to provide more than a reasonable margin for safety, that company would not have an accumulation of \$78,000,000 over and above its reserve liabilities, nor could it afford to pay its executive a salary of \$150,000, and other officers and agents in like munificent manner. Again, without charging premiums which covered more than its legitimate needs,

the New York Life could not roll up an undistributed surplus fund of \$53,000,000, beyond the reserve requirements, nor could it pay commissions of 60% and over, with substantial prizes and bonuses, and agents' club banquets, as inducements for increased business. All the extravagant expenditure of these companies, from campaign contributions and "Andy Field Houses of Mirth," to the footing of the meat bills of the executive, lead to but one conclusion—too much money has been collected in premium charges. The same conclusion is borne out by the large surplus of the Northwestern Mutual, Union Central and other companies, attention to which has already been called in this report.

PREMIUMS OF SOME COMPANIES ARE LOWER.

In addition to the above mentioned evidence of excessive premium collections, we have the convincing proof of substantial companies of long standing, which have been offering the same policies for the last ten to forty years, for premiums which are considerably lower. The net annual premium for a policy of insurance for \$1,000 for various ages at issue and plans based on the American Experience Table with 3% interest, is given in the following schedule:

TABLE I.
SHOWING NET ANNUAL PREMIUMS.

Age at issue.	Ordinary whole life.	20 payment life.	20 year endowment.
21	\$14.72	\$23.48	\$40.81
25	16.11	24.98	41.01
30	18.38	27.19	41.37
35	21.68	29.85	41.97
40	24.75	33.14	43.01
45	29.66	37.35	44.90
50	36.36	42.95	48.24
60	58.27	61.62	63.29

The following companies now issue an ordinary whole life policy (with participation in the dividends), on a three per cent basis, American Experience Table, and load the same for expenses, by adding a percentage of the net premium given in the above table. The schedule also shows the percentage added, the corresponding actual loading and the actual premium charged, for a whole life policy of \$1,000 issued at age 35.

TABLE II.

SHOWING PERCENTAGE OF LOADING.

Company.	Per cent. of loading.	Actual loading.	Actual premium age 35.
New York Life	33 ¹ / ₃	\$7.03	\$28.11
Equitable, N. Y.	33 ¹ / ₃	7.03	28.11
Travelers	33 ¹ / ₃	7.03	28.11
Northwestern Mutual	22 ¹ / ₂	6.85	27.93
Fidelity	22	6.75	27.83
Germania Life	31 ¹ / ₄	6.59	27.67
National Life, Vt.	30	6.33	27.41
Connecticut Mutual	25	5.27	26.35
Mutual Benefit	25	5.27	26.35

If we apply these percentage loadings to the net premiums given in Table I, column 2, we arrive at the following premiums actually charged by the highest and lowest companies on the preceding list:

TABLE III.

Age at issue.	N. Y. Life, Equitable, Travelers.	Mut. Benefit, Connecticut Mutual.	Difference.
21	\$19.62	\$18.40	\$1.22
25	21.49	20.14	1.35
30	24.38	22.85	1.53
35	28.11	26.35	1.76
40	33.01	33.94	2.07
45	39.55	37.08	2.47
50	48.48	45.45	3.03
55	60.72	56.93	3.79
60	77.69	72.83	4.86

VARIATIONS IN LOADING TOO WIDE.

This table shows that the New York Life and other companies loading 33 1-3% collect from one to five dollars more than the Mutual Benefit and other companies loading 25% on each \$1,000 of ordinary whole life insurance issued on this basis. We wish to emphasize the word "collects" here, for the company making the larger charge may return a dividend sufficiently great to balance the account. However, the question is not only one of the eventual cost, but of unnecessary and needless large premium collections.

What is a reasonable premium which is beyond all peradventure safe? From this point of view the Mutual Benefit is not

collecting enough or the New York Life is collecting too much. The Connecticut Mutual and the Mutual Benefit collect premiums which are loaded 25%. With this loading they conduct their business with safety, and return a portion of the premiums collected in the form of annual dividends. In addition, it appears from official reports, that the Mutual Benefit has accumulated a contingent surplus of \$7,576,303 and the Connecticut Mutual a contingent surplus of \$4,897,647. Furthermore, the Connecticut Mutual adopted and has been doing business on these premium rates since 1882, almost twenty-five years.

EFFECT OF OVER COLLECTION.

This difference of collection means much to the policy holders of this country. Since its premiums have been on a 3% interest basis, the New York Life has increased its insurance in force by almost \$1,000,000,000. A fair average of the difference between a 25% and a 33 1-3% loading per \$1,000 of insurance, would be \$2.00. Hence, the New York Life is collecting on these policies every year, at a moderate estimate \$2,000,000 more than necessary. In a similar manner the Equitable is making an over-collection of at least \$1,000,000, and the Mutual Life quite as much. It would probably be a low estimate to say that at least \$5,000,000 more than required is collected annually by the insurance companies of this country. Where the company making the collections retains the dividends from ten to twenty years, this over collection soon accumulates to an enormous figure. An over-collection of \$1,000,000 each year would accumulate in twenty years at 4% compound interest to over \$30,000,000. The actuary of the Mutual Life recently testified that in his judgment the companies would be able to earn this rate.

LOADING ON 3½% POLICIES.

Attention has been called to the loading on 3% policies. We now pass to a consideration of the premium charges made by the companies on a 3½% basis. Many of these companies are loading their net premiums for ordinary whole life insurance so heavily for expenses, that the actual premium collected is quite as high as that collected by three per cent companies, although

the $3\frac{1}{2}\%$ net premiums average more than \$1.00 lower for each \$1,000 of insurance. The usual method of loading for expenses in the participating ordinary whole life policy is to add a percentage of the net premium, plus a fixed charge. For example, the annual premium charged for an ordinary whole life policy by the Mutual Life of New York, is found by adding to the net premium 36% of itself, plus a fixed charge of eighty cents per thousand of insurance. To illustrate, the net premium on a $3\frac{1}{2}\%$ basis, age 35, is \$19.91. Add to this 36% of itself, or \$7.17, plus the fixed charge of 80 cents. The sum is the loading of \$7.97, and \$27.88, the premium actually collected.

In case of the limited payment life or endowment policy, the loading is made up of three portions:

- First.* Twenty per cent of the net premium on the policy in question.
- Second.* Sixteen per cent of the net premium on an ordinary life policy issued at the same age.
- Third.* A fixed charge of eighty cents per thousand of insurance.

With the Union Central the rule is as follows:

- First* Fifteen per cent of the net premium on the policy in question.
- Second.* Fifteen per cent of the net premium on an ordinary whole life policy issued at the same age.
- Third.* A fixed charge of one dollar per thousand of insurance.

FURTHER SCHEDULES TO SHOW EXCESSIVE PREMIUM CHARGES.

We append tables showing for ages 25, 35, 45 and 55, the annual premium charged for participating policies for \$1,000, the loadings contained in such premiums, the corresponding net premiums, and the percentage of loadings to net premiums, for the New York Life, the Equitable, the Northwestern, the Mutual Benefit, Connecticut Mutual, Mutual Life, Union Central, Provident Life & Trust, and also the non-participating rates charged by several of these companies prior to 1905, and at the present time.

The New York Life, the Equitable, Northwestern Mutual, Mutual Benefit and Connecticut Mutual rates, are based upon the

American Experience Table with 3% interest, and the remaining companies on the same table, but with $3\frac{1}{2}\%$ interest assumption. The schedules are for ordinary life, twenty payment life, ten payment life, twenty year endowment and ten year endowment policies, in the several companies mentioned. The first table, which is a summary of the results exhibited in the following schedules, shows that there is a wide variation in premiums actually collected. The difference between the highest and lowest premium collected, for precisely the same participating policy, on the ordinary life plan averages about \$2.00; on the twenty payment life plan about \$5.00, on the twenty year endowment plan about \$6.00; on the ten payment life plan about \$9.00, and on the ten year endowment plan about \$8.00. The non-participating rates are *considerably below the lowest* of the participating rates charged in all cases, the non-participating rates being from two to nine dollars lower than the lowest participating premiums, according to the kind of policy.

SUMMARY OF PREMIUM RATES.

Age.	Participating premium.			Non-participating premiums in use prior to 1905.	Excess of highest participating premiums over non-participating premiums in use prior to 1905.
	Highest premium	Lowest premium.	Difference.		

ORDINARY LIFE POLICY.

25	\$21.49	19.80	1.69	16.46	5.03
35	28.11	26.35	1.76	21.70	6.41
45	39.55	37.08	2.47	30.90	8.65
55	60.72	56.93	3.89	48.10	12.62

TWENTY PAYMENT LIFE POLICY.

25	31.83	26.75	5.08	24.56	7.27
35	38.34	33.28	5.06	29.87	8.47
45	48.52	43.46	5.06	38.23	10.29
55	66.69	60.79	5.90	53.08	13.61

TWENTY YEAR ENDOWMENT POLICY.

25	50.52	44.82	5.71	42.66	7.87
35	52.47	46.70	5.77	43.73	8.74
45	57.32	51.45	5.87	46.96	10.36
55	70.51	64.65	5.86	56.91	13.60

TEN PAYMENT LIFE POLICY.

25	51.67	42.31	9.36	40.47	11.20
35	61.53	52.00	9.53	48.81	12.72
45	75.57	65.82	9.75	61.84	14.73
55	96.66	86.75	9.91	78.76	17.90

TEN YEAR ENDOWMENT POLICY.

25	105.96	99.90	7.06	94.23	12.73
35	108.41	103.90	7.51	94.85	13.56
45	111.63	107.58	8.05	96.55	15.08
55	120.45	111.58	8.87	102.26	18.19

TABLE SHOWING FOR AGES 25, 35, 45, AND 55, THE ANNUAL PREMIUMS CHARGED, THE LOADINGS CONTAINED IN SUCH PREMIUMS, THE NET ANNUAL PREMIUM, AND PERCENTAGE OF LOADING TO NET PREMIUM, FOR THE NEW YORK LIFE, EQUITABLE, NORTHWESTERN MUTUAL, MUTUAL BENEFIT, CONNECTICUT MUTUAL, MUTUAL LIFE, UNION CENTRAL, PROVIDENT LIFE & TRUST, AND THE NON-PARTICIPATING PREMIUM RATES, IN USE NOW, AND IN USE PRIOR TO 1905.

ORDINARY LIFE POLICY, AMOUNT \$1,000.

American Experience Mortality Table, 3 Per Cent. Interest.

Age.	Participating premium.				
	N. Y. Life, Equitable.	North. Mutual.	Prudential	Mutual Benefit.	Conn. Mutual.
25 Premium.....	\$21.49	\$21.35	\$21.27	\$20.14	\$20.1
Loading.....	5.38	5.21	5.16	4.03	4.03
Net premium.....	16.11	16.11	16.11	16.11	16.11
Percent of loading to net premium.....	33.14	32.14	32.	25.	25.
35 Premium.....	28.11	27.93	27.83	26.35	26.35
Loading.....	7.03	6.85	6.75	5.26	5.26
Net premium.....	21.08	21.08	21.08	21.08	21.08
Percent of loading to net premium.....	33.14	32.14	32.	25.	25.
45 Premium.....	39.55	39.51	39.16	37.08	37.08
Loading.....	9.88	9.64	9.49	7.41	7.41
Net Premium.....	29.67	29.67	29.67	29.67	29.67
Percent of loading to net premium.....	33.14	32.14	32.	25.	25.
55 Premium.....	60.72	60.34	60.11	56.93	56.93
Loading.....	15.18	14.80	14.57	11.39	11.39
Net premium.....	45.54	45.54	45.54	45.54	45.54
Percent of loading to net premium.....	33.14	32.14	32.	25.	25.

Excess of highest participating premium over lowest participating premium:
Age 25, \$1.35; age 35, \$1.76; age 45, \$2.47; age 55, \$3.79.

ORDINARY LIFE POLICY, AMOUNT \$1,000.

American Experience Mortality Table, 3½ Per Cent Interest.

Age.	Participating premium.			Non-participating.	
	Mutual Life.	ion Central.	Prov. Life and Trust.	In use now.	Prior to 1905.
25 Premium	\$21.34	\$20.63	\$19.89	\$17.37	\$16.46
Loading	6.24	5.53	4.70	2.27	1.36
Net Premium	15.10	15.10	15.10	15.10	15.10
Per cent of loading to net premium	41.3	36.6	31.1	15	9
35 Premium	27.88	26.88	26.50	22.89	21.70
Loading	7.97	6.97	6.59	2.98	1.79
Net premium	19.91	19.91	19.91	19.91	19.91
Per cent of loading to net premium	40.0	35.0	33.1	15	9
45 Premium	39.36	37.85	38.00	32.60	30.90
Loading	11.61	9.50	9.65	4.25	2.55
Net premium	28.35	28.35	28.35	28.35	28.35
Per cent of loading to net premium	38.8	33.5	34.0	15	9
55 Premium	60.82	58.37	59.49	50.75	48.10
Loading	16.69	14.24	15.27	6.62	3.97
Net premium	44.13	44.13	44.13	44.13	44.13
Per cent of loading to net premium	37.8	32.3	34.6	15	9

EXCESS OF HIGHEST PARTICIPATING PREMIUM
OVER LOWEST PARTICIPATING PREMIUM.

Age 25	Age 35	Age 45	Age 55
\$1.54	\$1.38	\$1.51	\$2.45

EXCESS OF HIGHEST PARTICIPATING PREMIUM
OVER LOWEST NON-PARTICIPATING PREMIUM.

Age 25	Age 35	Age 45	Age 55
\$4.88	\$6.18	\$8.46	\$12.72

TWENTY PAYMENT LIFE POLICY, AMOUNT \$1,000

American Experience Mortality Table, 3 Per Cent Interest.

Age.	Participating premium.				
	N. Y. Life Equitable.	North. Mutual.	Prudential.	Mut. Benefit.	Conn. Mutual.
25 Premium	\$31.83	\$31.33	\$30.66	\$30.12	\$29.98
Loading	6.85	6.35	5.68	5.14	5.00
Net premium	24.98	24.98	24.98	24.98	24.98
Per cent of loading to net premium	27.4	25.4	22.7	20.6	20
35 Premium	38.34	37.80	36.95	36.22	35.82
Loading	8.49	7.95	7.10	6.37	5.97
Net premium	29.85	29.85	29.85	29.85	29.85
Per cent of loading to net premium	28.4	26.6	23.8	21.3	20
45 Premium	48.52	47.95	46.78	45.73	44.82
Loading	11.17	10.80	9.43	8.38	7.47
Net premium	37.35	37.35	37.35	37.35	37.35
Per cent of loading	29.9	28.4	25.2	22.4	20
55 Premium	66.69	66.10	64.32	62.68	63.79
Loading	16.03	15.44	13.86	12.02	10.13
Net premium	50.66	50.66	50.66	50.66	50.66
Per cent of loading	31.6	30.5	27.0	23.7	20

EXCESS OF HIGHEST PARTICIPATING PREMIUM
OVER LOWEST PARTICIPATING PREMIUM.

Age 25	Age 35	Age 45	Age 55
\$1.85	\$2.52	\$3.70	\$5.90

TWENTY PAYMENT LIFE POLICY, AMOUNT \$1,000.

Age.	Participating premium.			Non-participating.	
	Mutual Life.	Union Central.	Prov. Life & Trust.	In use now.	Prior to 1905.
25 Premium	\$33.35	\$29.17	\$26.75	\$25.35	\$24.56
Loading	7.72	6.64	4.22	2.82	2.03
Net premium	22.53	22.53	22.53	22.53	22.53
Per cent of loading to net premium	34.2	29.5	18.7	12.5	9
35 Premium	36.87	35.50	33.28	30.91	29.87
Loading	9.47	8.10	5.88	3.51	2.47
Net premium	27.40	27.40	27.40	27.40	27.40
Per cent of loading to net premium	34.6	29.6	21.5	12.9	9
45 Premium	47.42	45.58	43.46	39.82	38.23
Loading	12.35	10.51	8.39	4.75	3.16
Net premium	35.07	35.07	35.07	35.07	35.07
Per cent of loading to net premium	35.2	30.0	23.9	13.5	9
55 Premium	66.30	61.62	61.84	55.67	53.68
Loading	17.60	14.92	13.14	6.97	4.38
Net premium	48.70	48.70	48.70	48.70	48.70
Per cent of loading to net premium	36.1	30.6	27.0	14.3	9

**EXCESS OF HIGHEST PARTICIPATING PREMIUM
OVER LOWEST PARTICIPATING PREMIUM.**

Age 25	Age 35	Age 45	Age 55
\$3.50	\$3.59	\$3.96	\$4.46

**EXCESS OF HIGHEST PARTICIPATING PREMIUM
OVER LOWEST NON-PARTICIPATING PREMIUM.**

Age 25	Age 35	Age 45	Age 55
\$5.69	\$7.00	\$9.19	\$13.22

TWENTY YEAR ENDOWMENT POLICY, AMOUNT \$1,000.

American Experience Mortality Table, 3 Per Cent Interest.

Age.	Participating premium.				
	N. Y. Life, Equitable.	North. Mutual.	Prudential	Mutual Benefit	Conn. Mutual.
25 Premium	\$50.53	\$49.31	\$49.15	\$48.15	\$49.21
Loading	9.52	8.35	8.14	7.14	8.20
Net premium	41.01	41.01	41.01	41.01	41.01
Per cent of loading to net premium	23.2	20.3	19.8	17.4	20
35 Premium	52.47	51.43	51.22	49.85	50.36
Loading	10.50	9.46	9.25	7.88	8.39
Net premium	41.97	41.97	41.97	41.97	41.97
Per cent of loading to net premium	25.0	22.5	22.0	18.8	20
45 Premium	57.32	56.44	54.22	51.22	53.88
Loading	12.42	11.54	11.32	9.32	8.98
Net premium	44.90	44.90	44.90	41.90	44.90
Per cent of loading to net premium	27.7	25.7	25.2	20.8	20
55 Premium	70.51	69.78	69.51	66.36	64.71
Loading	16.58	15.85	15.58	12.43	10.78
Net premium	53.93	53.93	53.93	53.93	53.93
Per cent of loading to net premium	30.7	29.4	28.9	23.0	20

EXCESS OF HIGHEST PARTICIPATING PREMIUM
OVER LOWEST PARTICIPATING PREMIUM.

Age 25	Age 35	Age 45	Age 55
\$2.33	\$2.62	\$3.44	\$5.80

TWENTY YEAR ENDOWMENT POLICY, AMOUNT \$1,000.
American Experience Mortality Table, $3\frac{1}{2}$ Per Cent Interest.

Age.	Participating premium.			Non-participating.	
	Mutual Life.	Union Central.	Prov. Life & Trust.	In use now.	Prior to 1905.
25 Premium	\$50.18	\$48.28	\$14.82	\$43.21	\$42.66
Loading	11.04	9.14	5.68	4.07	3.52
Net premium	39.14	39.14	39.14	39.14	39.14
Per cent of loading to net premium	28.2	23.3	14.5	10.4	9
35 Premium	52.13	50.12	45.70	44.62	43.73
Loading	12.01	10.00	6.58	4.50	3.61
Net premium	40.12	40.12	40.12	40.12	40.12
Per cent of loading to net premium	29.9	24.9	16.4	11.2	9
45 Premium	57.03	54.79	51.45	48.44	46.96
Loading	13.95	11.71	8.37	5.36	3.88
Net premium	43.08	43.08	43.08	43.08	43.08
Per cent of loading to net premium	32.4	27.2	19.4	12.4	9
55 Premium	70.51	67.66	64.65	59.43	56.91
Loading	18.30	15.45	12.44	7.22	4.70
Net premium	52.21	52.21	52.21	52.21	52.21
Per cent of loading to net premium	35.1	29.6	23.8	13.8	9

EXCESS OF HIGHEST PARTICIPATING PREMIUM
OVER LOWEST PARTICIPATING PREMIUM.

Age 25	Age 35	Age 45	Age 55
\$5.36	\$5.43	\$5.58	\$5.86

EXCESS OF HIGHEST PARTICIPATING PREMIUM
OVER LOWEST NON-PARTICIPATING PREMIUM.

Age 25	Age 35	Age 45	Age 55
\$7.52	\$8.40	\$10.07	\$13.60

TEN PAYMENT LIFE POLICY, AMOUNT \$1,000.

American Experience Mortality Table, 3 Per Cent Interest.

Age.	Participating premium.				
	N. Y. Life, Equitable.	North Mutual.	Prudential	Mutual Benefit.	Conn. Mutual.
25 Premium	\$51.67	\$50.45	\$49.71	\$49.24	\$50.38
Loading	9.60	8.47	7.75	7.26	8.40
Net premium	41.98	41.98	41.98	41.98	41.98
Per cent of loading to net premium	23.1	20.2	18.4	17.3	20
35 Premium	61.53	60.16	59.21	58.58	59.67
Loading	11.80	10.43	9.48	8.55	9.94
Net premium	49.73	49.73	49.73	49.73	49.73
Per cent of loading to net premium	23.7	21.0	19.1	17.3	20
45 Premium	75.57	74.04	72.75	71.81	72.65
Loading	15.03	13.50	12.21	11.27	12.11
Net premium	60.54	60.54	60.54	60.54	60.54
Per cent of loading to net premium	24.8	22.3	20.1	18.6	20
55 Premium	96.66	94.99	93.69	91.58	91.61
Loading	20.32	18.65	16.75	15.24	15.27
Net premium	76.34	76.34	76.34	76.34	76.34
Per cent of loading to net premium	26.6	24.4	21.9	20.0	20

EXCESS OF HIGHEST PARTICIPATING PREMIUM
OVER LOWEST PARTICIPATING PREMIUM.

Age 25	Age 35	Age 45	Age 55
\$2.43	\$2.95	\$3.76	\$5.03

TEN PAYMENT LIFE POLICY, AMOUNT \$1,000.
American Experience Mortality Table, 3½ Per Cent Interest.

Age.	Participating premium.			Non-participating.	
	Mutual Life.	Union Central.	Prov. Life & Trust.	In use now.	Prior to 1905.
25 Premium	\$47.77	\$45.93	\$42.34	\$41.05	\$40.47
Loading	19.64	8.83	5.21	3.92	3.34
Net premium	37.13	37.13	37.13	37.13	37.13
Per cent of loading to net premium	28.7	23.8	14.0	10.6	9
35 Premium	57.72	55.48	52.00	49.63	48.81
Loading	12.94	10.70	7.22	4.85	4.03
Net premium	44.78	44.78	44.78	44.78	44.78
Per cent of loading to net premium	28.9	23.9	16.1	10.8	9
45 Premium	72.32	69.44	65.82	62.13	60.84
Loading	16.50	13.62	10.00	6.31	5.02
Net premium	55.82	55.82	55.82	55.82	55.82
Per cent of loading to net premium	29.6	24.4	17.9	11.3	9
55 Premium	94.57	90.72	86.75	80.99	78.76
Loading	21.31	18.46	14.49	8.73	6.50
Net premium	72.26	72.26	72.26	72.26	72.26
Per cent of loading to net premium	30.9	25.5	20.1	12.1	9

EXCESS OF HIGHEST PARTICIPATING PREMIUM
OVER LOWEST PARTICIPATING PREMIUM.

Age 25	Age 35	Age 45	Age 55
\$5.43	\$5.72	\$6.50	\$7.82

EXCESS OF HIGHEST PARTICIPATING PREMIUM OVER LOWEST NON-
PARTICIPATING PREMIUM.

Age 25	Age 35	Age 45	Age 55
\$7.30	\$8.91	\$11.48	\$15.61

TEN YEAR ENDOWMENT POLICY, AMOUNT \$1,000.

American Experience Mortality Table, 3 Per Cent. Interest.

Age.	Participating premium.				
	N. Y. Life, Equitable.	North. Mutual.	Prudential	Mutual Benefit.	Conn. Mutual.
25 Premium	\$106.22	\$103.06	\$102.61	\$101.85	\$106.49
Loading	17.18	14.82	13.87	13.11	17.75
Net premium	88.74	88.74	88.74	88.74	88.74
Per cent of loading to net premium	19.7	16.7	15.6	14.8	20
35 Premium	107.70	104.68	104.22	103.10	107.16
Loading	18.40	15.38	14.92	13.80	17.86
Net premium	89.30	89.30	89.30	89.30	89.30
Per cent of loading net premium	20.6	17.2	16.7	15.5	20
45 Premium	110.91	108.14	107.69	105.92	109.02
Loading	20.09	17.29	16.84	15.07	18.17
Net premium	90.85	90.85	90.85	90.85	90.85
Per cent of loading to net premium	22.1	19.0	18.5	16.6	20
55 Premium	115.61	117.16	116.68	113.71	115.25
Loading	23.60	21.12	20.64	17.70	19.21
Net premium	96.04	96.04	96.04	96.04	96.04
Per cent of loading to net premium	24.6	22.0	21.5	18.4	20

EXCESS OF HIGHEST PARTICIPATING PREMIUM OVER LOWEST PARTICIPATING PREMIUM.

Age 25	Age 35	Age 45	Age 55
\$4.37	\$4.60	\$5.02	\$5.90

TEN YEAR ENDOWMENT POLICY, AMOUNT \$1,000.

American Experience Mortality Table 3½ Per Cent. Interest.

Age.	Participating premium.			Non-participating.	
	Mutual Life.	Union Central	Prov. Life and Trust.	In use now.	Prior to 1905.
25 Premium	\$103.96	\$102.68	\$99.90	\$94.07	\$94.23
Loading	20.51	16.23	13.45	7.62	7.73
Net premium	\$6.45	\$6.45	\$6.45	\$6.45	\$6.45
Per cent of loading to net premium	23.7	18.8	15.6	8.8	9
35 Premium	108.41	104.06	100.90	95.04	94.85
Loading	21.39	17.04	13.88	8.02	7.83
Net premium	\$7.02	\$7.02	\$7.02	\$7.02	\$7.02
Per cent of loading to net premium	24.6	19.6	15.9	9.2	9
45 Premium	111.63	107.12	103.58	97.35	96.55
Loading	23.05	18.54	15.00	8.77	7.97
Net premium	\$8.58	\$8.58	\$8.58	\$8.58	\$8.58
Per cent of loading to net premium	26.0	20.9	16.9	9.9	9
55 Premium	120.45	115.51	111.58	104.17	102.26
Loading	26.63	21.69	17.76	10.35	8.44
Net premium	\$3.82	\$3.82	\$3.82	\$3.82	\$3.82
Per cent of loading to net premium	28.4	23.1	18.9	11.0	9

EXCESS OF HIGHEST PARTICIPATING PREMIUM OVER LOWEST PARTICIPATING PREMIUM.

Age 25	Age 35	Age 45	Age 55
\$7.06	\$7.51	\$8.05	\$8.87

EXCESS OF HIGHEST PARTICIPATING PREMIUM OVER LOWEST NON-PARTICIPATING PREMIUM.

Age 25	Age 35	Age 45	Age 55
\$12.89	\$13.56	\$15.08	\$18.19

SUMMARY OF LOADINGS.

A summary of the loadings on the various policies included in the preceding schedules is added. In showing the difference between the highest and lowest loading for a given plan of policy at a given age, no account is taken of the different interest assumptions made in computing the corresponding net premium, for the reason that these interest rates have been adopted on the theory that they will be realized. The loadings added for expenses and contingencies may therefore be properly compared. The average excess of the highest loading over the lowest loading on participating policies is: Ordinary life, \$3.15; twenty payment life, \$1.86; twenty year endowment, \$5.97; ten payment life, \$6.37; ten year endowment, \$7.99. The average excess of the highest loading on the participating plan, over the lowest loading on the non-participating plan is: Ordinary life, \$8.06; twenty payment life, \$8.78; twenty year endowment, \$9.90; ten payment life, \$10.88; ten year endowment, \$14.93.

A comparison of the highest loadings on the ordinary life policy with the highest on the 20 year endowment policy and 10 year endowment policy issued at the same age, shows a heavy discrimination against the latter. The annual loading at age 35 on the ordinary life policy is \$7.97 and on the 10 year endowment policy is \$21.39. The average amount of insurance at risk under the latter plan is about one-half the amount of insurance at risk on the ordinary life plan for the same period, that is from age 35 to 45, and on this basis the loading on the 10 year endowment plan would average about \$42.78 per \$1,000 of insurance at risk, or over five times the loading added at the same age on an ordinary life policy. The present value of the loadings at *different* ages on the same plan also seem to be unfairly levied. For example, the present value of the New York Life loadings on the ordinary life plan are:

Age	25	35	45	55
Present value of loading...	\$118.73	\$139.96	\$168.20	\$203.31

It thus appears that the present value of the amount collected in the premiums for expenses on the ordinary life plan, is almost twice as much at age 55 as at age 25.

TABLE SHOWING FOR AGES 25, 35, 45 AND 55, THE HIGHEST AND LOWEST LOADINGS ON PARTICIPATING POLICIES IN THE PRECEDING SCHEDULES AND THE DIFFERENCE BETWEEN THOSE LOADINGS, ALSO THE EXCESS OF THE HIGHEST LOADING ON PARTICIPATING POLICIES OVER THE LOWEST LOADING ON NON-PARTICIPATING POLICIES.

Age.	Participating Policies.			Excess of highest participating loading over lowest non-participating loading.
	Highest loading.	Lowest loading.	Difference.	

ORDINARY LIFE POLICY.

25	\$6.24	\$4.03	\$2.21	\$4.88
35	7.97	5.26	2.71	6.18
45	11.01	7.41	3.60	8.46
55	16.69	11.39	5.30	12.72

TWENTY PAYMENT LIFE POLICY.

25	7.72	4.22	3.50	5.69
35	9.47	5.88	3.59	7.00
45	12.35	7.47	4.88	9.19
55	17.60	10.13	7.47	13.32

TWENTY YEAR ENDOWMENT POLICY.

25	11.04	5.68	5.36	7.52
35	12.61	6.58	5.43	8.40
45	13.95	8.37	5.58	10.07
55	18.30	10.78	7.52	13.60

TEN PAYMENT LIFE POLICY.

25	10.64	5.21	5.43	7.50
35	12.94	7.22	5.72	8.91
45	16.50	10.00	6.50	11.48
55	22.31	14.49	7.82	15.81

TEN YEAR ENDOWMENT POLICY.

25	20.51	13.11	7.40	12.89
35	21.39	13.80	7.59	13.56
45	23.05	15.00	8.05	15.08
55	26.63	17.70	8.93	18.19

USAGE ONLY DEFENSE OF UNFAIR LOADINGS.

It was admitted throughout the examination that the present adjustment of the loadings as between different kinds of policies is unscientific and works great discrimination. Especially is this true as between the ordinary life and the short term endowment policies. In the case of the latter it was admitted that these were necessarily much less profitable to the insured at all times during the period than a combination of a term policy and a deposit of the difference in the premiums in a bank. No defense has been suggested for this condition other than long established custom and the practice of companies in paying commissions. The money paid by the insured in excess of the current expense and mortality requirements is, in fact, a deposit made by the insured, and it is not apparent that it is essentially different from a deposit in a bank. No good reason has been disclosed why such deposit should be charged with any expenses other than investment expenses and taxes.

The committee does not believe that it should attempt to prescribe any ratio of adjustment of the loadings between different kinds of policies. If the expense and mortality provisions and the amount of the deposit for each year be placed before the policy holder in a table such as heretofore recommended, the real situation will be apparent to the insured and the companies alike and this matter quickly remedied.

GUARANTEED DIVIDENDS.

A conclusive admission on the part of some companies that the present premium rates can be reduced is found in the policies which they now issue under the name of "Guaranteed Annual Dividend" and "Advanced Dividend" and "Premium Reduction" policies. These policies are written on various plans, as ordinary life, twenty payment life, and twenty year endowment, and guarantee stipulated annual dividends, and in addition hold out the hope to the insured of additional dividends at certain distribution periods. The premium rates on these policies never exceed and are frequently lower than the highest participating rates shown in the preceding schedules, and under the latter, no guarantee of dividend reductions is made.

For example, the Reliance Life, on American Experience 3% basis with the same premium as the New York Life and Equitable, guarantees annual dividends on the ordinary life policy issued at age 35 for \$1,000, premium \$28.11 of something over \$5.00 each year, amounting in twenty years to \$102.56. At age 55, premium \$60.12. The guaranteed annual dividends are over \$11.00, and amount in twenty years to \$229.12. On the twenty payment life plan, age 35, premium \$38.31, the guaranteed annual dividends are over \$6.00, and amount in twenty years to \$124.03. Age 55, premium \$66.69, the guaranteed annual dividends are over \$12.00, amounting in twenty years to \$241.84. Under the twenty year endowment plan, age 35, premium \$52.47, the guaranteed annual dividends are over \$7.00, and amount in twenty years to \$153.22. Age 55, premium \$70.51, guaranteed annual dividends over \$12.00, amounting in twenty years to \$250.27. These dividends are provided for in the premiums collected, and if they were not guaranteed, the premiums could be reduced.

LOADINGS AND DIVIDENDS.

It may be urged that while the *premiums* of some companies exceed those of others, owing to the heavier loadings, the larger dividends returned make the eventual cost less in the higher premium company. This is not true in practice, and in any event, the insured has no guarantee that such will be the case. The following exhibit of annual dividends declared in 1905 shows that just about the reverse has been true. The tables are for policies issued at age 35, amount \$1,000, and with premiums based on the American Experience Mortality table. The first three show the annual dividend on 3% policies issued in 1900, the second three the annual dividend on 4% policies in 1895. It will be observed that where the loading is high it usually follows that the net cost, which is the difference between the premium collected and the dividend returned, is also high. We conclude that the collection of high premiums with heavy expense loadings, with no guaranteed dividend returns to the insured, provides the means for and stimulates excessive expenditures for insurance management.

ANNUAL DIVIDEND IN 1905 ON POLICIES ISSUED IN 1900.

At Age 35, Amount \$1,000, American Experience 3 Per Cent.*

Company.	Premium.	Loading.	Dividend.	Net cost.
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ORDINARY LIFE POLICY, NET PREMIUM, \$21.08.

Equitable	\$28.11	\$7.03	\$2.77	\$25.34
New York Life.....	28.11	7.03	3.28	24.83
Northwestern Mutual....	27.93	6.55	6.55	21.38
Mutual Benefit	26.35	5.26	3.56	22.79
Connecticut Mutual	26.35	5.26	4.35	22.00

TWENTY PAYMENT LIFE POLICY, NET PREMIUM \$29.85.

New York Life.....	\$38.34	\$8.49	\$3.28	\$35.06
Equitable	38.34	8.49	3.55	34.99
Northwestern Mutual	37.80	7.95	7.02	36.78
Mutual Benefit	36.22	6.37	4.29	31.93
Connecticut Mutual	35.82	5.97	4.59	31.23

TWENTY YEAR ENDOWMENT POLICY, NET PREMIUM \$41.97.

Equitable	52.47	10.50	4.15	48.32
New York Life	52.47	10.50	6.12	46.35
Northwestern Mutual	51.43	9.46	7.67	43.76
Conn. Mutual	50.36	8.39	8.13	42.33
Mutual Benefit	49.85	7.88	5.27	44.58

* The Union Central has no policies issued on the American Experience 3 per cent basis.

ANNUAL DIVIDENDS IN 1905 ON POLICIES ISSUED IN 1895.

At Age 35, Amount \$1,000, American Experience 4 Per Cent.

Company.	Premium.	Loading.	Dividend.	Net cost.
ORDINARY LIFE POLICY, NET PREMIUM \$18.44.				
Mutual Life	\$27.10	\$8.26	\$9.55	\$23.55
New York Life.....	27.10	8.26	4.98	22.12
Equitable	26.38	7.54	3.61	22.77
Union Central	26.38	7.54	6.67	19.71
Mutual Benefit	26.00	7.16	5.25	20.75
TWENTY PAYMENT LIFE POLICY, NET PREMIUM \$25.26.				
Mutual Life	\$35.00	\$9.74	\$1.25	\$30.75
New York Life.....	35.00	9.74	4.98	30.02
Equitable	34.08	8.82	4.20	29.88
Union Central	34.08	8.82	7.57	26.51
Mutual Benefit	33.07	8.71	6.39	27.48
TWENTY YEAR ENDOWMENT POLICY, NET PREMIUM \$28.55.				
Mutual Life	\$50.90	\$12.55	\$5.57	\$45.33
New York Life.....	50.90	12.55	9.35	41.55
Equitable	49.79	11.44	5.40	44.39
Union Central	49.79	11.44	10.02	39.77
Mutual Benefit	49.87	11.52	8.44	41.43

The Northwestern Mutual has no policies issued on the American Experience 4 per cent. basis.

INTEREST AND MORTALITY ASSUMPTION.

The propriety of a limitation on the rate of interest which a company might assume to make on its investments, has been recognized for many years, and the rate has been changed from time to time to conform to the steady decline in interest earning power of first class securities. No company would question the wisdom of requiring a valuation of the reserve liabilities, and the computation of premiums within the limit set by some recognized standard table, making ample provision for the mortality experience to be expected in a normal company.

We believe that it is quite as feasible to anticipate and provide for the future expenses of management, to compute the premiums on such expense assumption, and hold reserves which will provide both for future mortality and expenses. All companies now assume a future rate of interest and a future rate of mortality. Their officers can have no control over either of these factors. Their control over the expenditures, however, is absolute. Why then can they not anticipate and provide for the latter, by assuming a safe and reasonable expense rate? Recent investigations have shown that the present abuses in insurance are largely due to the fact that this third factor, that of expense, has not been the subject of strict accounting and limitation. Had there been a limitation of the expense provision contained in the premium charges and a strict accounting, many extravagances which have been the subject of bitter criticism and led to public distrust in the management of some of our insurance companies, would have been avoided.

With the results of this and other investigations before us, we feel that it is imperative to recommend, in addition to the interest and mortality limitations, a further limitation on expenses of management.

INTEREST LIMITATION.

The net rate of interest assumed in computing premiums and reserves should be not less than 2½% nor more than 4%.

MORTALITY LIMITATION.

The mortality provision should be the cost of insurance calculated according to a mortality table adopted by the company, which table, if other than the American Experience, Actuaries or American Experience Select and Ultimate, should not exhibit at any age and for the same duration, a lower death rate than that shown at the corresponding age and duration by the British Offices Select O^{MO} Mortality Table. The cost of insurance should be based upon the amount at risk, which latter should be defined as the excess of the face of the policy over the reserve.

RESERVE LIABILITY.

The reserve should be sufficient, with the premiums coming due, to provide for the current cost of insurance for each year, and the current expense provision for each year, and to mature the contract according to its terms, said reserve to be calculated on the same mortality and interest and expense assumptions as the premium.

LIMITATION OF EXPENSE PROVISION.

The expense provision should be fixed by the company subject to the limitation that the present value of the expense provision, at any age of issue, for any plans or kinds of insurance, computed according to the table of mortality adopted and rate of interest assumed, should not exceed one-fourth of the net single premium upon an ordinary life policy at the same age computed according to the American Experience Table of mortality with interest at 3%.

MAXIMUM EXPENSE PROVISION.

The following table exhibits the present value of the total expense charges provided for each \$1,000 of insurance under the recommendations of this committee. The total provision for expense at a given age will be the same on all plans of insurance.

Age.	Total expense provision.	Age.	Total expense provision.
15	\$77.34	41	\$117.00
16	78.35	42	119.20
17	79.40	43	121.46
18	80.47	44	123.77
19	81.50	45	126.15
.....	82.74	.....	.....
21	83.92	46	128.58
22	85.14	47	131.06
.....	86.41	48	133.59
24	87.71	49	136.18
25	89.05	50	138.80
.....
26	90.43	51	141.47
27	91.86	52	144.18
28	93.33	53	146.92
29	94.85	54	149.69
30	96.41	55	152.48
.....
31	98.02	56	155.30
32	99.68	57	158.13
33	101.40	58	160.97
34	103.16	59	163.82
35	104.97	60	166.68
.....
36	107.84	61	169.53
37	108.76	62	172.38
38	110.74	63	175.21
39	112.77	64	178.02
40	114.83	65	180.81

The companies should be permitted to distribute the expense provision at their pleasure through the whole or any part of the policy, subject only to the limitations that the expense provision for any year shall not exceed:

(a) In the first year, the difference between the premium and the mortality charge;

(b) In any of the four succeeding years, the mortality charge for such year, or one-half the difference between the premium and the mortality charge for such year, whichever is the greater.

(c) In any year after the fifth year, the expense provision of any previous year of the policy.

The necessary change in the valuation law to permit companies to make use of this freedom in the distribution of its expense provisions is herein recommended. The need of such a change in the valuation law and in the manner of distributing the expense provision was recognized by the New York insurance law recently enacted, requiring, in effect, the adoption of a net premium for the first year which is less than the following net premiums by the estimated savings on the mortality for the first five

years according to the American Experience Select and Ultimate Table of Mortality.

This is merely a method of making a larger first year's provision for expenses out of a level premium incidentally conforming the mortality provisions more closely to the facts than the tables now in use.

VALUATION.

For the purpose of determining the solvency of the company, it should be charged as its liability on its policies, with reserves computed as now provided by section 1958 of the statutes of 1898, as amended by chapter 519 of the laws of 1905, except that policies written in the state after 1907 shall be valued separately according to the tables of expense and mortality adopted, and rate of interest assumed, within the limitations above specified.

THE PLAN ELASTIC AND ADAPTABLE TO VARYING CONDITIONS.

The foregoing plan has the virtue of being in accord with two fundamental principles, freedom and publicity. With respect to methods of valuation, the New York law provides for the select and ultimate and prohibits preliminary term. The Massachusetts committee prohibits select and ultimate and preliminary term, and advocates the full legal reserve system. The Chicago committee of fifteen commends the modified preliminary term but rejects the select and ultimate. Each plan is opposed by some insurance companies. Other states may adopt still other combinations of various systems. A process of this kind in fifty different states would render hopeless any attempt to secure uniformity.

It has been shown in this branch of the report by tables and illustrations that the plan proposed will permit the use of the present full legal reserve system, the select and ultimate method, the full and modified preliminary term plans, or any other plan which may be devised in the future and possibly be a great improvement on all which have preceded it.

The limitations provided with respect to the tables of expense and mortality and rate of interest while permitting all these plans, still provide ample safe-guards, and with the publicity in-

sured by the table proposed to be required in the policy and application, will, we believe, do much to remedy the present evils in life insurance, and place it upon a basis of honesty and fair dealing with competition for real economy. We, therefore, recommend its enactment into law.

HIGH COMMISSIONS HAVE INCREASED EXPENSES.

It is not the intention of the committee to enter into a discussion of the past and present expenditures of insurance companies and exhibit a labyrinth of puzzling percentages, to show that the expenses incident to insurance management have greatly increased in recent years.

Mr. Gage Tarbell, second vice-president of the Equitable of New York, testified before the Armstrong committee that:

"In the 70's the companies paid a very much lower commission than they do now. The general commission, I think, paid by the principal companies during that time ranged during the different years in the 70's perhaps, of the first year's premiums from 20 to 25% up to about 35% of the premiums, and they began to grow during the later 70's quite perceptibly"..... "Commissions were more or less increased until say, about 1880, the first year's commissions paid by most companies I think was about 60%..... Renewals running from $7\frac{1}{2}\%$, I think with most companies, to 10% with some companies, and bonuses varying from \$2 to \$5 per thousand, generally to from 5 to 10% of the first year's premiums, and these conditions went on, I think, all through the 80's."

We stand squarely upon the proposition that a company which cannot transact business in this state on these allowances, should be permitted to retire from the state. In passing upon the limitations proposed, the state cannot take into consideration the past experience of insurance companies in the ambitious race for "bigness." Any company which cannot conduct its business upon the expenses herein provided is one which the state cannot afford to encourage or foster. Such a company cannot reasonably appeal to the state to protect it in its extravagance, and the state should never hesitate to exercise its sovereign power in the protection of its citizens.

REDUCTION IN PRESENT VALUE OF EXPENSE PROVISIONS.

The following table shows the maximum present values of all expense provisions allowed on a \$1,000 policy for various plans and ages under the proposed limitation, and the excess over such maximum present values of the loadings for expenses now used by the several companies therein indicated. The present values of these loadings are calculated on the American Experience, Select and Ultimate, table of mortality, with 3% interest for the New York Life, Northwestern Mutual, and Mutual Benefit, and 3½% interest for the Mutual Life, Union Central, and Provident Life and Trust. On this basis the table shows that the present value of the loadings on the New York Life ordinary life 3% policy issued at age 35 is in excess of the allowance herein recommended by \$36.55. Similarly, the excess loading on the Mutual Life 10 year endowment 3½% policy issued at age 55 is \$60.27, while the Provident Life and Trust is \$10.60 within the allowance provided on the same policy.

The minus signs indicate that most of the companies are already within the allowance recommended on the 10 payment life plan.

If these companies should maintain their present loadings, and in addition, use a sum estimated to be equal to the first five years' mortality savings for expenses, as provided under the select and ultimate method and permitted under the New York law, the excess shown in the table over the maximum allowance proposed would be increased to the extent of the savings from mortality so used for expenses. For example, at age 35, ordinary life plan, 3%, the estimated saving is \$10.75, which, added to \$36.55, gives an excess of \$47.30 over the allowance proposed for a similar policy written in this state.

TABLE SHOWING THE PRESENT VALUES OF REDUCTION IN THE EXPENSE PROVISION REQUIRED UNDER PROPOSED LIMITATION.

Age.	Ordinary life.	20 payment life.	20 year endowment.	10 payment life.	10 year endowment.
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MAXIMUM PRESENT VALUES OF ALL EXPENSE PROVISIONS ALLOWED.

25	\$89.05	\$89.05	\$89.05	\$89.05	\$89.05
35	104.97	104.97	104.97	104.97	104.97
45	126.15	126.15	126.15	126.15	126.15
55	152.48	152.48	152.48	152.48	152.48

EXCESS OVER ABOVE OF THE PRESENT VALUES (COMPUTED ON THE AMERICAN EXPERIENCE, SELECT AND ULTIMATE, MORTALITY TABLE) OF EXPENSE PROVISIONS CONTAINED IN PREMIUMS NOW CHARGED BY THE

NEW YORK LIFE, 3 PER CENT.

25	\$31.03	\$9.51	\$47.92	-\$3.18	\$60.44
35	36.55	15.06	44.22	-4.43	51.80
45	44.17	26.71	43.82	0.55	43.21
55	55.44	44.80	51.57	13.07	39.79

NORTHWESTERN MUTUAL, 3 PER CENT.

25	\$27.90	\$2.31	\$31.09	-\$16.61	\$37.69
35	32.93	7.59	29.45	-16.11	26.07
45	40.03	18.91	51.77	-12.34	19.60
55	50.24	37.54	42.59	-0.54	19.58

MUTUAL BENEFIT, 3 PER CENT.

25	\$1.90	-\$15.10	\$13.68	-\$26.96	\$33.07
35	0.92	-11.46	7.00	-32.12	12.61
45	1.59	-11.17	1.39	-31.14	6.80
55	3.53	-4.55	0.50	-28.32	-8.28

MUTUAL LIFE, 3½ PER CENT.

25	\$30.73	\$17.72	\$43.33	\$3.12	\$42.81
35	41.96	24.42	50.12	3.07	73.64
45	53.35	36.52	57.69	10.19	64.31
55	66.16	56.63	61.94	25.75	60.27

UNION CENTRAL, 3½ PER CENT.

25	\$25.68	\$2.78	\$37.36	\$15.05	\$46.97
35	26.15	5.70	31.63	15.62	37.31
45	28.73	12.29	28.00	13.61	27.05
55	34.32	24.78	31.68	5.03	20.80

PROVIDENT LIFE & TRUST, 3½ PER CENT.

25	\$7.95	\$30.69	\$10.50	\$45.38	\$23.67
35	13.00	24.62	15.07	44.68	10.33
45	31.17	-15.91	15.90	43.52	-2.20
55	47.83	3.64	-4.68	36.72	-10.60

PREMIUM LIMITATION.

The committee recommends, in accordance with the plan heretofore proposed, that after 1907 no company shall be permitted to issue in this state any policy of life insurance, wherein the stipulated premiums, calculated on the tables of expenses and mortality adopted and the rate of interest assumed, provide for more than an annuity of the expense charges set forth in the table therein contained, and the mortality charges, and to mature the policy according to its terms.

Under this provision and the preceding expense limitation, the maximum uniform annual premiums for policies of \$1,000 for various plans and ages are given in the following table. They are calculated on the tables of mortality and with the rates of interest therein indicated.

The question of limiting the premiums to these figures is not at all one of theory. Its feasibility has been amply demonstrated for a period of from ten to forty years, by the practice of some of the safest and oldest companies in the country. The bulk of the business is written on the ordinary life, twenty payment life, and twenty year endowment plans, and the premiums now charged on these plans by a number of companies of unquestioned strength, are equal to or less than the maximum premiums proposed. These companies have paid good dividends on smaller premiums, and have, in addition, accumulated and maintained an adequate contingency reserve.

MAXIMUM ANNUAL PREMIUMS ALLOWED UNDER PROPOSED LIMITATIONS.

Age.	Ordinary life.	20 payment life.	20 year endowment.	10 payment life.	10 year endowment.
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AMERICAN EXPERIENCE, 3 PER CENT.

25	\$20.14	\$31.23	\$47.25	\$52.48	\$99.24
35	26.35	37.31	49.43	62.16	101.73
45	37.08	46.69	54.23	75.67	105.99
55	56.93	63.32	66.59	95.43	115.13

AMERICAN EXPERIENCE, SELECT & ULTIMATE, 3 PER CENT.

25	19.67	30.51	46.56	51.33	98.22
35	25.76	36.50	48.04	60.87	100.56
45	36.20	45.60	53.16	74.03	104.46
55	55.02	61.23	64.52	92.59	112.33

BRITISH OFFICES, SELECT O[M], 3 PER CENT.

25	19.49	30.09	45.93	50.78	97.57
35	26.05	36.65	48.49	61.04	100.17
45	36.78	46.20	52.66	74.60	104.56
55	54.80	61.35	64.78	92.54	112.53

AMERICAN EXPERIENCE, 3½ PER CENT.

25	19.46	29.02	45.64	47.81	97.16
35	25.55	35.16	47.88	57.46	99.79
45	36.19	44.76	52.78	71.25	104.02
55	56.01	61.82	65.33	91.72	113.28

AMERICAN EXPERIENCE, SELECT AND ULTIMATE, 3½ PER CENT.

25	18.95	28.28	44.93	46.67	96.13
35	24.92	34.31	47.06	56.14	98.51
45	35.26	43.64	51.68	69.57	102.47
55	54.04	59.65	63.18	88.73	110.44

BRITISH OFFICES, SELECT O[M], 3½ PER CENT.

25	18.74	27.84	44.27	46.09	95.46
35	25.29	34.47	46.99	56.34	98.12
45	35.86	44.26	52.17	70.20	102.59
55	53.93	59.79	63.46	88.79	110.64

ACTUARIES, 4 PER CENT.

25	19.46	27.75	44.14	44.86	95.07
35	25.29	34.43	46.91	55.03	98.00
45	37.34	45.01	52.92	69.71	102.07
55	57.76	63.16	66.76	91.25	113.56

REDUCTION IN ANNUAL PREMIUMS ON THE AMERICAN EXPERIENCE TABLE OF MORTALITY.

The following table shows the reduction in annual premiums required on a \$1,000 policy under the proposed limitation. The table contains a statement of the maximum annual premiums allowed on the American Experience Table of Mortality with 3% interest, at ages 25, 35, 45 and 55, and for various plans of insurance. It also indicates the excess above or amount below such maximum premiums now charged by the New York Life, Northwestern Mutual, and Mutual Benefit on the 3% basis. The second half of the table also shows the maximum annual premiums allowed on the American Experience Table of Mortality with $3\frac{1}{2}\%$ interest for the same plans and ages, and the excess above or amounts below such maximum annual premiums, now charged by the Mutual Life, Union Central, and Provident Life and Trust on the $3\frac{1}{2}\%$ basis.

It will be observed for example, that in the case of the New York Life on the ordinary life plan at age 25, there is a reduction of \$1.35 per \$1,000 policy, while on the same policy at age 55, there is a reduction of \$3.79. It also shows the present annual premium of the New York Life on the 10 payment life policy at age 25 is 81 cents below the maximum allowed under the proposed limitation.

The table further shows a reduction on the ordinary life plan in the Northwestern Mutual at age 25 of \$1.21 and at age 55 of \$3.41 while it shows the annual premium in the Northwestern on the 10 payment life is \$2.03 less than the maximum allowed at age 25, and 44 cents less than the maximum allowed at age 55.

An examination will indicate a similar reduction on different forms of policies referred to in the table.

Whenever the minus sign is used, it indicates that the companies are at present writing that form of policy at a premium less than the maximum allowed under the proposed plan by the amount following the minus sign.

A TABLE SHOWING THE REDUCTION IN ANNUAL PREMIUMS REQUIRED UNDER THE PROPOSED LIMITATION.

Age.	Ordinary life.	20 payment life.	20 Year endowment.	10 payment life.	10 Year endowment.
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MAXIMUM ANNUAL PREMIUMS ALLOWED ON AM. EXP. 3 PER CENT.

25	\$20.14	\$31.23	\$47.25	\$52.48	\$99.24
35	26.35	37.31	49.43	62.16	101.73
45	37.08	46.69	54.23	75.67	105.99
55	56.93	63.32	66.59	95.43	115.13

EXCESS OVER ABOVE OF THE ANNUAL PREMIUMS NOW CHARGED BY THE NEW YORK LIFE, 3 PER CENT.

25	1.35	0.60	3.28	-0.51	6.98
35	1.76	1.03	3.04	-0.63	5.97
45	2.47	1.83	3.09	-0.10	4.95
55	3.79	3.37	3.92	1.23	4.51

NORTHWESTERN MUTUAL, 3 PER CENT.

25	1.21	0.10	2.11	-2.03	3.82
35	1.58	0.49	2.00	-2.00	2.95
45	2.23	1.26	2.21	-1.63	2.15
55	3.41	2.75	3.19	-0.44	2.03

MUTUAL BENEFIT, 3 PER CENT.

25	0.00	-1.11	0.90	-3.24	2.61
35	0.00	-1.09	0.42	-3.58	1.37
45	0.00	-0.96	-0.01	-3.83	-0.97
55	0.00	-0.64	-0.23	-3.85	-1.39

MAXIMUM ANNUAL PREMIUMS ALLOWED ON AM. EXP. 3½ PER CENT.

25	19.46	29.02	45.64	47.84	97.16
35	25.55	35.16	47.88	57.46	99.70
45	36.19	44.76	52.73	71.25	104
55	56.01	61.82	65.33	91.72	113.28

EXCESS OVER ABOVE OF ANNUAL PREMIUMS NOW CHARGED BY THE MUTUAL LIFE, 3½ PER CENT.

25	1.88	1.23	4.54	-0.07	9.80
35	2.33	1.71	4.25	0.26	8.71
45	3.17	2.66	4.25	1.07	7.61
55	4.81	4.48	5.18	2.85	7.17

UNION CENTRAL, 3½ PER CENT.

25	1.17	0.15	2.64	-1.88	5.52
35	1.33	0.34	2.24	-1.98	4.36
45	1.66	0.82	2.01	-1.81	3.10
55	2.36	1.80	2.33	-1.00	2.23

PROVIDENT LIFE & TRUST, 3½ PER CENT.

25	0.34	-2.27	0.82	-5.50	2.74
35	0.95	-1.88	-1.18	-5.46	1.20
45	1.81	-1.30	-1.33	-5.43	-0.44
55	3.39	0.02	-0.68	-4.97	-1.70

REDUCTION IN ANNUAL PREMIUMS ON AMERICAN EXPERIENCE,
SELECT AND ULTIMATE TABLE OF MORTALITY.

The next table shows the maximum annual premiums allowed for various plans and ages under the proposed limitation, based on the American Experience, Select and Ultimate Table of Mortality with 3% and with 3½% interest.

The New York law practically compels companies transacting business in that state to base their annual premiums on the Select and Ultimate table of mortality, but does not limit the premium charged thereunder. If however, a company should transact business both in this state and New York, with annual premiums based on this table, and with the same rate of interest as now employed, the reduction effected in such annual premiums as now charged, would be as indicated in the following table.

From an examination of the table it appears that the reduction in annual premiums hereunder would be somewhat greater than in the table just preceding. For instance, the reduction effected in the annual premium on an ordinary life policy for \$1,000, age 35, as now charged by the New York Life would be \$2.35. The reduction effected at age 55 on a ten year endowment policy issued by the Mutual Life of New York would be \$10.01.

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A TABLE SHOWING THE REDUCTION IN ANNUAL PREMIUMS REQUIRED UNDER THE PROPOSED LIMITATION.

Age.	Ordinary life.	20 payment life.	20 Year endowment	10 payment life.	10 Year endowment.
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MAXIMUM ANNUAL PREMIUMS ALLOWED ON THE AM. EXP., SEL. AND ULT., 3 PER CENT.

25	\$19.67	\$30.51	\$46.56	\$51.33	\$98.22
35	25.76	46.50	48.64	69.87	100.56
45	36.20	45.60	53.16	74.03	104.46
55	55.02	61.23	64.52	92.50	112.33

EXCESS OVER ABOVE OF THE ANNUAL PREMIUMS NOW CHARGED BY THE NEW YORK LIFE, 3 PER CENT.

25	1.82	1.32	3.97	0.34	8.00
35	2.35	1.84	3.83	0.65	7.14
45	3.35	3.92	4.16	1.54	6.43
55	5.70	5.46	5.99	4.16	7.31

NORTHWESTERN MUTUAL, 3 PER CENT.

25	1.68	0.82	2.80	-0.88	4.84
35	2.17	1.30	2.79	-0.71	4.12
45	3.11	2.35	3.28	0.01	3.68
55	5.32	4.87	5.26	2.49	4.83

MUTUAL BENEFIT, 3 PER CENT.

25	0.47	-0.39	1.59	-2.09	3.63
35	0.59	-0.28	1.21	-2.29	2.54
45	0.88	0.13	1.06	-2.22	1.46
55	1.91	1.45	1.84	-0.92	1.41

MAXIMUM ANNUAL PREMIUMS ALLOWED ON THE AM. EXP., SEL. & ULT., 3½ PER CENT.

25	18.95	28.28	44.93	46.67	96.13
35	24.92	34.31	47.06	56.14	98.51
45	35.26	43.64	51.68	69.57	102.47
55	54.04	59.66	63.18	88.73	110.44

EXCESS OVER ABOVE OF ANNUAL PREMIUMS NOW CHARGED BY THE MUTUAL LIFE, 3½ PER CENT.

25	2.39	1.97	5.25	1.10	10.83
35	2.96	2.56	5.07	1.58	9.90
45	4.10	3.78	5.35	2.75	9.16
55	6.78	6.61	7.33	5.84	10.01

UNION CENTRAL, 3½ PER CENT.

25	1.68	0.80	3.35	-0.71	6.55
35	1.96	1.19	3.06	-0.66	5.55
45	2.54	1.94	3.11	-0.13	4.65
55	4.33	3.96	4.48	1.99	5.07

PROVIDENT LIFE & TRUST, 3½ PER CENT.

25	0.85	-1.53	-0.11	-4.33	3.77
35	1.58	-1.03	-0.36	-4.14	2.39
45	2.74	-0.18	-0.23	-3.75	1.11
55	5.36	2.18	1.47	-1.98	1.14

SOME ADVANTAGES OF THE PROPOSED PLAN CONSIDERED.

The plan proposed has, among others, the following advantages. It reduces the annual premiums per \$1,000 policy as now charged by some companies, from one to ten dollars, according to the plan and age. It makes all forfeiture and surrender charges unnecessary; it gives the companies opportunity to justly apportion the loadings on different plans of policies and different ages on the same plan. It permits companies to write insurance on the preliminary term, the modified preliminary term, the select and ultimate, and the net level premium plans. It abolishes rebating, so far as the company and the old policy holders are concerned, and compels the agent who grants a rebate to pay it out of his own money. It requires the companies to disclose to the policy holder, at the time of entering into the contract how much of his premium payments are collected for expenses, mortality charges, and the deposit to mature the policy according to its terms, and enables the policy holder to intelligently enter into the contract, and at the same time places the companies in a position where in writing new business they will compete for economy.

There are many arguments which appeal to this committee in favor of a smaller first year's commission, and larger and gradually decreasing renewals. The proposed plan gives the companies every opportunity to progress in this direction, and distribute the expense provision over the life of the policy to accord with the commissions as paid.

The testimony shows that it is the practice of companies to expend the loadings collected on limited payment policies within the premium payment period, reserving nothing for the expenses on account of such policies thereafter. The table proposed to be required in the policy, would bring the absence of such provision to the notice of the policy holders, and thereby encourage a correction of this practice.

The several plans now in use are open to the criticism that in order to secure an additional provision for expenses in the first year, each annual premium paid throughout the life of the policy must be increased by such amount. An increase of one dollar in first year's loading on an ordinary life policy would result in an increase of expense allowances throughout the life of

the policy, the present value of which would range from \$15 to \$20. Under the plan proposed the expense provision for the first year may be increased without affecting the expense allowance for subsequent years.

STANDARD PROVISIONS.

The committee is reluctant to recommend a number of different standard forms, and believes that practically the same results can be attained by the enactment of a law prescribing certain standard provisions, prohibiting certain provisions, and designating the substance of certain other provisions to be determined upon by the company within stated limitations. To secure uniformity the law should prescribe the arrangement. The committee recommends a form of policy, as above indicated, to be printed throughout in the same color of ink, and in type of uniform size and arrangement.

The companies have uniformly insisted that it was the desire of the management to retain the members and to avoid forfeitures. The committee is not convinced that the surrender charge now made has any effect in preventing surrender of policies, and is of the opinion that no surrender charge should be made. It is believed that the immediate needs of the insured for quickly raising funds on the policy can be met by liberal loan privileges, and that the termination of policies will be discouraged by the requirement of a provision for a notice of one year or less, at the option of the company, and not more than two years, before the insured can surrender his policy. Such a provision is recommended by the committee, leaving it optional with the company to restrict its commencement to the end of the second policy year.

The committee recommends a provision requiring loans to be made after the second policy year, from funds on hand, in the order of the applications up to a limit fixed by the company at not less than 90% of the deposit, with interest at the same rate as fixed on other policy loans. The form of the loan agreement is specified in this provision, to prevent the imposition of any conditions which were not contemplated by the parties when the contract was issued.

The New York law provides that the first year's cost of new

business shall be paid for out of the expense provision. The same recommendation is made by this committee. When this is done it is clearly unfair to allow the policy to lapse while any part of the reserve remains, and a provision is recommended requiring that any premium which is not paid when due shall be charged as a loan against the policy upon the same terms as other policy loans.

The committee also recommends a provision automatically extending the time of payment of any premium loan or other loan, so long as the deposit to the credit of the insured is sufficient to carry the loan. This simply provides that the deposit of the policy holder shall be used to maintain his policy in force.

It is a common practice now for companies to require a deposit of the policy in case of a loan. To introduce a uniform rule, the committee recommends a provision that no policy loan other than the automatic premium and interest loans above provided, shall be valid, unless a memorandum thereof shall be endorsed upon the policy. The indebtedness can then be determined by any one by an examination of the policy and premium receipts. This will enable the policy holder to borrow from others than the company on the security of his policy, without the necessity of inquiring of the company as to prior indebtedness.

A provision is recommended requiring the termination of the insurance on the policy anniversary, whenever the deposit to the credit of the insured shall not be sufficient to fully secure the indebtedness and interest, without payment at the next anniversary, and before such cancellation a notice by mail to the insured and beneficiary, at least sixty days in advance, and upon such termination, a cancellation of the indebtedness, and a return of any balance to the insured.

The committee recommends that dividends shall be apportioned and distributed on each policy anniversary, the ascertainment and apportionment to be as of the last calendar year to apply to the policy anniversary occurring during the year beginning the first day of April after such calendar year.

We recommend a standard provision requiring that the agreement and table of expense charges, mortality charges, and deposits, specified elsewhere in this report, be contained in every policy written or issued in this state after 1907, such agree-

ment and table to appear on the first page of the application, and that the policy, together with a copy of the application attached thereto at the time of its delivery, constitute the entire contract between the parties.

DIVIDENDS.

It has already been shown that the surplus is made up of the gain from excess interest earnings, gain from mortality lower than provided for, the savings from loadings for expenses, and gains from surrendered and lapsed policies. Another source may be regarded as the profits from sales of securities in excess of book values.

Of these various forms of gain the first three are direct contributors to what is known in insurance terms as the "dividend." The gains from surrendered and lapsed policies are usually employed to off-set the expense of getting new business, and the profits from sales of securities are carried to the account of investment earnings and these two sources of gain, therefore, contribute indirectly, to the dividend declared. The total surplus may be said to be the sum of the various gains on all policies, while the dividend pertaining to any policy is in theory, its individual contribution to the surplus fund. In other words, the total gain in interest, mortality and expenses from each policy, is the source of the dividend apportioned to that policy. Also, in the case of the individual policy, it follows that the items of gains from surrenders and lapses, and profits from sales of securities and other minor sources of gain enter only indirectly into the dividend contribution of each policy. It appears that the so-called dividend is not a profit or an earning on invested principal, in the sense that is ordinarily understood in business. It is rather, a return of the premium overcharge made, owing to the impossibility of exactly forecasting future conditions. For this reason it is generally conceded that the word "dividend" is a mis-nomer, and is misleading to the policy holder.

DIFFERENT KINDS OF DIVIDENDS.

There are practically two classes of dividends in this country, annual dividends and deferred dividends. When the dividend is determined and actually paid each year, it is said to be an annual dividend.

SEMI-TONTINE DIVIDENDS.

If the insured elects to leave his annual dividends for a fixed term of years with the company, subject to forfeiture in case of failure to pay the premium or death within such term of years, the policy is said to be a semi-tontine policy, and the dividends are called deferred or semi-tontine dividends. For instance, if 100,000 people take out policies and agree to leave their annual dividends in the hands of the company for a term of twenty years, the aggregate to be divided among the survivors whose policies remain in force at the end of the term, such policy would be called a semi-tontine twenty year term deferred dividend contract. The deferred dividend principle is thus seen to consist in forming a kind of pool of the annual dividends, to be divided only among those who live and continue to pay their premiums to the end of the deferred period.

FULL TONTINE DIVIDENDS.

There is another form of deferred dividend policy known as the full tontine, or briefly, "tontine policy." This provides that the insured shall forfeit his deferred dividend accumulations in case of death before the expiration of the deferred term, and in case of failure to pay premiums within the deferred dividend period or term, he shall forfeit the full value of his policy, together with the accumulated dividends. The only point of difference between the semi-tontine and full tontine policy is that in the latter there is the additional agreement to forfeit the value of the policy in case of failure to pay premiums within the deferred term. The latter provision has resulted in so much hardship in the way of heavy forfeitures on policies of duration sufficient to have acquired a large reserve as to bring about the prohibition of such contracts by statutory enactment in most states. The semi-tontine and full tontine policies are both in the nature of a wager. In effect, the semi-tontine policy holder wagers his dividends that he will survive a fixed term of years, and meanwhile, continue to pay his premiums. The tontine policy holder, in addition to this dividend wager, wagers the value of his policy that he will continue to pay the premiums throughout the deferred period.

ANNUAL DIVIDENDS.

It was developed during the investigation that the annual dividends declared by the Northwestern Mutual and Union Central, are apportioned in accordance with the "contribution to surplus" plan. This method aims to return to each policy holder at the end of the policy year, the exact amount of overcharge contributed to the general surplus. The contribution formula assumes three sources of gain, namely, gain from excess interest, gain from mortality and gain from loading. At any time in the history of the policy its reserve may be invested and earn a higher rate of interest than the assumed rate required to maintain it. The mortality experience may be lower than expected by the assumed table. The loading added to cover expenses of management and contingencies may be more than actually required for this purpose.

For example, in 1905, the net interest earning of the Northwestern Mutual was 4.38%, while 3% was required to maintain the reserve on policies issued since 1899. It thus appears that every one thousand dollars of reserve on these policies, earned \$13.80 more than required, while the excess interest earning on the 4% policies was \$3.80 per one thousand dollars of reserve. In the case of the Union Central, the net rate of interest earned for 1905 was 5.535%, making an excess interest earning of \$15.35 per one thousand of reserve on 4% policies. The following table exhibits these facts more clearly:

EXCESS INTEREST EARNING PER ONE THOUSAND DOLLARS OF RESERVES IN 1905.

Company.	Gross rate of interest.	Net rate of interest.	Excess on 4 per cent reserves.	Excess on 3½ per cent reserves.	Excess on 3 per cent reserves.
North. Mut.....	4.730	4.380	\$3.80		\$13.81
Union Cent	6.090	5.535	15.35	\$20.35	

The older policies of both companies, comprising the bulk of the insurance in force, are on a 4% basis, and on account of their age have necessarily accumulated large reserves. The importance to the policy holder of the difference of 1.155% in the net rate of interest earned on invested assets as affecting dividends based on actual conditions is strikingly shown here in the

interest gains of the two companies under 4% policies. One company gains \$3.80, the other company gains \$15.35. It appears that each 1/10 of 1% gain in the net rate of interest earned over the assumed rate means a saving of one dollar for each one thousand dollars of reserve. This clearly demonstrates the importance attaching to wise management in the investment of the reserve funds, to the end that the largest possible rate of interest consistent with sound investments be earned.

It has already been noted in this report that there is a considerable gain from mortality on the basis of the mortality tables adopted by companies doing business in this state. The actual mortality experienced by the Northwestern in 1905 was only 67% of the expected mortality, and the actual mortality of the Union Central was only 55% of the expected mortality. The expected mortality in both cases was shown by the American Experience Table. This means that for every one thousand dollars in death claims the Northwestern Mutual was prepared to pay, it was called upon to pay only \$670, leaving a saving of \$330. Similarly for the Union Central, for every one thousand dollars of death claims expected and provided for in 1905, there were only \$550 actually paid, leaving a saving of \$450 from that source. In the case of the third element, the gain from loading, the Northwestern Mutual incurred an expense of about 80½% of the loading provided therefor, while the Union Central expended more than the loading provided for such expense.

It thus appears that in the case of the Northwestern Mutual, if dividends were returned in exact accordance with the conditions realized in 1905, there would be returned a dividend to each policy holder on the basis of an interest earning of 4.38%, a mortality gain of 33%, and a gain on loading of about 20%. This would mean an excess interest earning on 3% policies of 1.38% and on 4% policies of .38%. It was developed in the course of the investigation, however that, although dividends are returned in accordance with the contribution plan, the factors employed in computing these dividends are not positively in accord with actual conditions. For example, in 1905 the interest factor used by the Northwestern Mutual was 4.½%. The mortality gain assumed was 21.½% and in computing the gain from loading, it was assumed that 12.½% of the total premium was used for expenses, the balance of the loading, if any, being the gain from loading.

In the case of the Union Central, the net interest actually earned was 5.535%. The mortality gain was 45% and there was an actual loss on loading. The factors employed, however, were 5% on interest and 36% on mortality. In computing the gain from loading it was assumed that a percentage of the total premium, together with a fixed charge of \$2.00 per \$1,000 of insurance, was used for expenses, the balance of the loading, if any, being the gain from loading. The above mentioned percentage varies from 10% to 18%, according to the plan of insurance and duration of the policy. The fact that the dividend factors were not in agreement with actual conditions was discussed at considerable length before the committee and it appeared that the chief reason for varying the factors was to grade the dividends in such a way that there might be a slight increase in the dividend returns to the policy holder year by year. While the actual conditions might call for a decrease in dividends in a given company, the dividends declared might, and usually were increasing. The effect of this, the officers testified, was to keep the policy holder satisfied. It was also brought out in the testimony before the committee that the effect was to conceal from the policy holders the true condition of affairs.

The interest factor used by the Northwestern in 1905 was 4.1½% while the net interest earned by the company, as reported, was only 4.38%. From which it appears the company declared unearned interest gains of \$1.20 per one thousand dollars of reserves. On the other hand, they allowed a mortality gain of 21.7½% on death claims, when the actual gain on death claims was 33% of the amount expected. It seems that there was a shifting of the source of dividend earnings, the policy holder receiving more gain from interest than his reserve had earned and less gain from mortality than the experience would call for. The effect of this would be a discrimination in favor of policy holders with large reserves, for the larger the reserve, the smaller the amount at risk. Accordingly the large reserve holder would gain \$1.20 per one thousand dollars of reserve and would not lose so much on account of the change in the mortality factor, owing to the fact that his amount at risk was small. In the testimony before the committee it was not clear that any rule was followed in the determination of these factors, other than that the factors were decided upon by the executive committee. It appeared that

this matter was not necessarily under the control of the actuary. The mainspring of action, however, seemed to be a desire on the part of the company management, to produce a schedule of dividends which would be, at least, slightly increasing in order, as they said, to keep the policy holder satisfied.

In order that the manner of apportioning dividends adopted by the Northwestern Mutual Life Insurance Company may be thoroughly understood, we have inserted a dividend statement on a form prepared by the committee and filled in by this company.

DIVIDENDS FOR 1902.

Name: L. S. Davis.	Year of issue: 1884.
No. of policy: 124814.	Age at issue: 35.
Kind of policy: Ordinary life. Mortality table: Actuaries' (semi-tontine)	
Distribution period: 20 years. Interest basis: 4%.	
Amount: \$5,000.	Annual premium: \$132.15.

REGULAR SURPLUS.

Gain from interest.....	\$10.75
Gain from mortality.....	14.15
Gain from loading.....	19.45
	<hr/>
Total regular surplus.....	\$44.35

ADDITIONAL SURPLUS.

Interest on tontine fund.....	\$37.32
Gain from death.....	16.14
Gain from lapse.....	0.00
	<hr/>
Total additional surplus.....	\$ 53.46
Tontine fund of preceding year.....	1,241.16

Tontine fund of 1902.....	\$1,341.97
Interest factor used in computing regular surplus.....	4.8%
Mortality factor used in computing regular surplus.....	31.1½%
Loading factor used in computing regular surplus.....	11%
Rate of improvement of tontine fund.....	3%

It will be noted that the dividend statement divides the surplus into two portions called (a) regular surplus, (b) additional surplus. The regular surplus is computed on the assumption that the policy is an annual dividend policy and is the surplus credited to this policy on that hypothesis. We shall first explain the method by which the regular surplus is computed and consider the additional surplus later under the description of tontine dividends.

The statement of regular surplus shows that there are three sources of gain: Interest, \$10.75; mortality, \$14.15; loading, \$19.45, making a total annual dividend of \$44.35. This is the dividend which would be declared on a similar policy if it were on the annual dividend basis. The figures are arrived at as follows: The policy was issued in 1884 at age 35, and based upon the actuaries' mortality table, with an interest basis of 4%. The annual premium was \$132.45 or \$26.49 per \$1,000. The policy in 1902 was in its eighteenth year and the dividend declared in 1902 would be the dividend for that year. At the beginning of this year and immediately after the payment of the annual premium the status of the policy would be as follows:

1. Initial reserve per \$1,000 of insurance.....	\$268.37
2. Expected cost of insurance per \$1,000 of insurance ..	13.17
3. The annual premium per \$1,000 of insurance....	26.49
4. The net annual premium per \$1,000 of insurance..	19.87
5. Annual loading = $1/3$ of annual premium.....	6.62
6. Expense charge for the policy year per \$1,000 of insurance,	2.91
7. Saving from loading = (5) less (6).....	3.71
8. Interest rate assumed in computing the dividend..	4.8%
9. Mortality assumed in computing the dividend....	$78\frac{1}{2}\%$

Since the rate of interest credited is 4.8% and the premium is based on an interest assumption of 4% the interest gain on the reserve is 8%. The total interest gain then, on the initial reserve of \$268.37 is equal to

$$.008 \times 268.37 = \$2.15 \text{ per } \$1,000 \text{ of insurance.}$$

The mortality assumed in computing the dividend being $78\frac{1}{2}\%$ of the mortality provided for, there is a gain of $21\frac{1}{2}\%$ on the expected cost of insurance, that is,

$$.215 \times \$13.17 = \$2.83 \text{ per } \$1,000 \text{ of insurance.}$$

Finally, the loading per \$1,000 of insurance for expenses was \$6.62, being one-third of the net premium. In computing gains from loading the company has charged an actual expenditure for insurance management of 11% of premium received. 11% of \$26.49 is \$2.91. Deducting this from the loading we arrive at a saving from loading of \$3.71 per \$1,000 of insurance on this particular policy. This saving from loading is improved at interest at the rate assumed by the company in computing the dividend, namely, 4.8% and therefore amounts at the end of the policy year to \$3.89. This gives for the \$5,000 policy the following:

Gain from interest	=	\$2.15 x 5	=	\$10.75
Gain from mortality	=	2.83 x 5	=	14.15
Gain from loading	=	3.89 x 5	=	19.45

Total regular surplus.....	<u> </u>	\$44.35.
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The annual dividend credited to this policy, then, is \$44.35. We wish to emphasize particularly that the rate of interest in computing this annual dividend is 4.8%. The reserve fund and the saving from loading were improved at the rate of 4.8% during the year. We shall find later in this report that the tontine accumulations credited contingently on this policy were improved at a much lower rate, namely, at the rate of 3%.

The following table submitted by the company shows the interest, mortality, and expense factors employed in computing annual dividends from 1872 to 1905:



ANNUAL DIVIDEND FACTORS.

Year of	Interest.	Mortality.	Expense.		
1872.....	7.	80.	12.5	Also \$1.50 per \$1,000. Also \$1.50 per \$1,000. Also \$1.50 per \$1,000. Also \$0.75 per \$1,000.	
1873.....	7.927	80.	12.5		
1874.....	7.927	80.	10.		
1875.....	7.927	85.	9.		
1876.....	7.927	80.	8.	PAID UP POLICIES.	
1877.....	7.927	90.	7.		
1878.....	7.927	90.	6.	Interest. Mortality.	
1879.....	7.	90.	6.		
1880.....					
1881.....	6.833	89.5	6.		
1882.....	6.	87.	6.		
1883.....	5.625	80.	8.	5.5	90.
1884.....					
1885.....	5.6	78.5	9.1	5.5	91.5
1886.....					
1887.....					
1888.....					
1889.....					
1890.....	5.6	78.5	8.3	5.5	91.5
1891.....					
1892.....					
1893.....					
1894.....	5.5	78.5	8.5	5.5	91.5
1895.....	5.4	78.5	8.5	5.4	91.5
1896.....	5.3	78.5	8.5	5.3	91.5
1897.....	5.2	78.5	8.5	5.2	91.5
1898.....	5.1	78.5	8.5	5.1	87.5
1899.....					
1900.....	5.0	78.5	8.5	5.0	87.5
1901.....					
1902.....	4.8	78.5	11.0	4.8	87.5
1903.....					
1904.....	4.5	78.5	12.5	4.5	87.5
1905.....					

THE MORTALITY FACTOR.

The table shows that the mortality assumed in computing dividends was 80% from 1872 to 1874, 85% in 1875, 90% from 1876 to 1880, 89.½% in 1881, 87% in 1882, 80% in 1883, and 78.½% from 1884 to the present time. Since 1883, the rate of mortality assumed on paid up policies averages about 11% higher than the rate assumed with respect to the premium paying policies. The actuary testified that the rate of mortality on paid up policies was a little higher than the general average of the company.

It was admitted that the sudden changes in assumptions as to mortality, namely, from 80% to 85% in 1875, from 85% to 90% in 1876, decreasing to 78.½% from 1879 to 1884, did not accord with the experience of the company. While the mortality since 1884 has been assumed to be 78.½% of the tabular mortality, it appears from the gain and loss exhibit that the percentage of ac-

tual to expected mortality from 1895 to 1901, has been as follows:

Year.	Per cent.	Year.	Per cent.
1895	69.76	1900	63.02
1896	53.68	1901	63.72
1897	61.33	1902	60.34
1898	62.21	1903	66.17
1899	61.45	1904	66.37

The actuary was unable to say what the percentage of actual to expected mortality was in 1884 when the factor $78\frac{1}{2}$ was determined upon, but stated that in 1905 it was in the neighborhood of 65 to 70. In justification of this practice of making a difference of 10% in the mortality factor employed and the factor resulting from actual experience, it was stated that it was not considered wise to distribute in accordance with the actual experience, leaving nothing for surplus. It was admitted that in the course of ten years at this rate, the accumulations from this source, would amount to something over one year's tabular mortality, but no good and sufficient ground could be offered to demonstrate that such an accumulation was necessary. A study of the testimony leads us to the conclusion that the changes in the factor used in returning mortality gains to the policy holders were quite arbitrary.

EXPENSE FACTOR.

The same table shows that the expense factor has varied considerably since 1872, diminishing from $12\frac{1}{2}\%$ of the premium, plus a charge of \$1.50 per thousand of insurance in 1872 to 6% of the premium in 1878, and then increasing to $12\frac{1}{2}\%$ of the premium in 1903, where it remains at the present time. The actuary of the company testified that there was no definite provision for expense charges against paid-up policies. It was admitted that the change from $8\frac{1}{2}\%$ to 11% in 1901 was not due to a real increase in expense as between the two years, but to a conviction on the part of the company that there had been an increase in the expenses, and that the provision made had been somewhat too low. There was a real increase of expense reflected in the change in the expense factor, and the same thing was true with respect to the

change in 1903 to 12.1/2%. The change from 8.1/2% in 1901 to 12.1/2% in 1903 represented an advance of about 50% in the expense charge, but the actuary testified that expenses did not increase this amount within the period, and admitted that the provision of 8.1/2% expense charge had been too low for some considerable time.

Another reason was offered for the rapid increase of the expense charge within this period, based on more liberal terms made by the company after 1901, with respect to surrender charges. The testimony shows that gains from surrenders and lapses were employed to offset the expenses of new business. For example, from the gain and loss exhibit of 1905 it appears that the reserves released by surrenders and lapses were \$5,519,591, and that the total surrender values allowed amounted to \$5,040,400, leaving a difference of \$539,000. The actuary testified that this saving was first deducted from actual expenses before the expense charge was made against the premiums. The following table admitted in the testimony, taken from the gain and loss exhibit, gives the percentage of reserves returned on surrenders from the Northwestern Mutual for the year 1905.

The ratios are as follows:

Year.	
1895.....	52.09%
1896.....	59.51%
1897.....	71.13%
1898.....	71.11%
1899.....	73.61%
1900.....	75.52%
1901.....	81.59%
1902.....	85.28%
1903.....	87.15%
1904.....	89.19%
1905.....	90.31%

These figures show that there was a marked increase in the ratio between 1895 and 1896. In 1895 it appears that the company forfeited nearly one-half of the reserve funds on surrender. The actuary of the company admitted that the introduction of the gain and loss exhibit in 1895, probably had something to do with the

liberalizing of the terms of surrender from 52.09% of the reserves released in 1895 to 79.57% of the reserves released in 1896. In 1901 there was another marked increase when the ratio went from 75.52% to 84.59%. The final and most liberal scale of surrender charge began to have a marked effect in 1901 and thereafter. During these years, the gain from surrenders continually diminished, and as a smaller proportion was received from that source to be offset against the expense, a larger ratio of expense charge against premiums became necessary.

APPORTIONMENT OF TONTINE SURPLUS.

The company, after setting aside from the surplus earnings, profits, savings, and gains for the year, such sums for contingency reserve and other purposes as it may determine upon, annually apportions the balance in accordance with the method already described, to all policies entitled to participate therein. In the case of an annual dividend policy the amount so apportioned is distributed. In the case of a deferred dividend or tontine policy, the amount so apportioned, called "Regular Surplus," is provisionally credited to the policy and carried to a separate fund, called the "Tontine Fund," and there left to accumulate at interest. Policies in the first group and in the second group, in other respects alike, receive a like apportionment.

Each tontine policy is also provisionally credited each year with its share of what is called "Additional Surplus." The additional surplus is made up of three items, interest on tontine accumulation, gain from death, and gain from lapse. The tontine accumulation of the preceding year is improved at interest and provides the first item, "Interest on Tontine Fund" (see following schedule).

The surplus derived from tontine policies terminated by death in any year is provisionally apportioned at the close of that year to the surviving tontine members, having regard to their respective ages. This provides the second item "Gain from Death." For the purpose of apportioning the surplus from policies terminated by death the tontine business is divided into three groups corresponding to the distribution period: 10 year groups, 15 year groups, and 20 year groups. The 10 year group contains all 10 year deferred tontine policies in force at any time. Similarly

for the 15 and 20 year groups. The apportionment of surplus terminated by death is an apportionment to these several groups. On the ascertainment of surplus forfeited by each group, such surplus forfeited is annually apportioned to the members of that particular group. For example, surplus forfeited by death out of the twenty year group is annually apportioned to the members of the 20 year group.

The surplus provisionally apportioned to tontine policies lapsing in any year, together (in the case of the full tontine policy only) with the values of the paid up insurance which might have been claimed, had they not been tontine policies, is provisionally apportioned at the close of that year to the remaining tontine members who have incurred and surmounted the risk of lapse during the same year, each class being treated separately. This is the third item "Gain from Lapse." By risk of lapsing is meant the special risk of adding to the tontine surplus by failing to pay premiums. A class includes those of the same year of issue and the same tontine period. For the purpose of apportioning the surplus forfeited by discontinuance of the policies by virtue of lapse or surrender (the voluntary discontinuance of the policy by the policy holder) each group is subdivided into classes. There would be in a 10 year group 10 classes, each class depending upon the year of issue, as the class of 1895, the class of 1896, and so on. In the 15 year group there would be 15 classes and in the 20 year group 20 classes. The apportionment of surplus forfeited by voluntary discontinuance is on the basis of these classes. That is, the surplus from each class of a 10 year group thus forfeited is ascertained and apportioned to the persisting members of that class year by year. Similarly for the 15 year group and for the 20 year group. The amount of surplus forfeited by each class of each group is ascertained and apportioned to the particular class and group to which it belongs, and that ascertainment and apportionment is made each year. The surplus account of full tontine policies and semi-tontine policies is kept separate.

The foregoing statements are illustrated by the following schedule, which shows the dividend provisionally apportioned in 1902 to policy No. 154,441:

14—I.

It will be noticed that the interest factor used in computing regular surplus was 4.8%, while the rate of improvement of the tontine fund was 3%. Had the tontine fund on this policy been improved at the rate of interest used in computing regular surplus, the provisional credit to this fund would have been increased by \$23.92.

The above policy was issued in 1887 on the ordinary life plan for amount \$3,000, and the statement indicates the provisional credit at the end of the fifteenth year. It thus appears that the loss of interest credit on the tontine fund amounted to \$7.97 per \$1,000 of insurance in 1902.

TOTAL TONTINE FUND.

The total dividends accruing contingently to tontine policy holders constitute what is called the tontine surplus. This fund amounted, December 31, 1905, to \$24,903,433.

It appears from the testimony that the Northwestern kept an individual account with each deferred dividend or tontine policy holder and that from this account they are able to furnish a full statement of all apportioned dividends provisionally credited throughout the life of each policy. The company has in the past furnished a statement to its deferred dividend policy holders upon demand only, but such statement did not contain all the information set forth in the preceding schedule called for by the committee. Had the statement furnished the policy holders contained all the information in the foregoing schedule, the discrimination hereinafter explained would not have been attempted. The policy mentioned in the foregoing schedule calls for an interest earning on reserve of 4%, and the statement shows that in the year 1902, the regular surplus dividend was based upon an interest rate of 4.8%. The company reported to this committee an annual gross rate earned of 4.65%, and a net rate of 4.24% for this year. The testimony shows that the net rate represented the interest earned after deducting all the expenses incident to the care of investments.

It thus appears that while the net rate earned was 21-100% in excess of the 4% required, the company was distributing dividends to annual dividend policy holders and apportioning a regular surplus dividend to tontine policy holders on the basis of 4.8%

an excess of 8-10%. The dividend was consequently much higher than the excess of the net rate of interest over the reserve requirement would provide, and this excess on the reserve fund at that time amounted to about \$185,000, the total reserve being about \$133,000,000. The balance of the total assets consisted of a tontine fund of about \$24,000,000, an unassigned surplus of about \$5,000,000, and about \$3,000,000 of apportioned dividends, salaries and other items.

ANNUAL DIVIDENDS TAKEN IN PART FROM THE EARNINGS ON TONTINE SURPLUS.

The source of the \$185,000 of dividends apportioned but not earned on the net reserves may be in part explained by the manner in which the tontine fund was treated. The \$24,000,000 of tontine surplus held at this time was not improved at 4.21%, the net rate of interest actually earned, nor at 4.8%, the rate of interest used in computing the regular dividends. The rate used was 3%, causing a loss in this respect to the owners of this fund of \$290,000 on the basis of the net rate earned, and \$432,000 on the basis of the rate used for apportioning the annual dividends.

During the examination of the actuary of the Northwestern, a circular issued by the company after it began issuing deferred dividend policies, was introduced. This circular described the manner of keeping tontine accounts, and contained the following statement: "To keep in view the equitable rights of each tontine and semi-tontine policy, a provisional account or memorandum of its contributions to the undivided surplus is kept, and also of its fair share of special tontine profits, adding interest from year to year, *at the current rate used in the ordinary dividend calculations.*" (Test. p 142.)

Notwithstanding this specific promise, the rate used in improving the tontine funds was scaled every year except 1889, as indicated in the following table.

INTEREST RATES AND DIVIDEND FACTORS.

The following table shows the gross and net rates of interest earned on mean invested assets by the Northwestern Mutual from 1883 to 1905 inclusive. The net rate is derived from the

gross by deducting from the earnings of the assets the following items of expense: real estate expenses, real estate taxes, loan expenses, salaries of officers and clerks of loan and abstract departments, expenses of trustees and executive committee (consisting principally of salaries of members of executive and finance committees not receiving officers' salaries), two-thirds of legal expenses and one-fourth of miscellaneous expenses, viz: rent, supplies, postage, exchange, furniture and fixtures. No account has been taken in the preparation of the table "net rate earned on mean invested assets" of the special expense factor incident to the creation and care of what is known as the tontine fund of the company.

The rate of interest employed in computing annual dividends and the rate of interest employed in improving the tontine fund for the same years are also given.

INTEREST RATES OF NORTHWESTERN MUTUAL EARNED ON MEAN INVESTED ASSETS, AND DIVIDEND FACTORS.

Year.	Gross rate.	Net rate.	Rate of annual dividend.	Rate of Improvement of Tontine Fund.
1883	6.17	5.47	5.625	5.5
1884	6.18	5.53	5.6	5.5
1885	6.08	5.43	5.6	5.5
1886	6.08	5.37	5.6	5.5
1887	6.24	5.59	5.6	5.5
1888	6.03	5.37	5.6	5.5
1889	6.12	5.49	5.6	5.5
1890	5.86	5.25	5.6	5.5
1891	5.91	5.37	5.6	5.0
1892	5.68	5.17	5.6	5.0
1893	5.53	5.03	5.6	5.0
1894	5.49	5.01	5.5	5.0
1895	5.72	5.24	5.4	5.0
1896	5.46	4.94	5.3	5.0
1897	5.41	4.81	5.2	5.0
1898	5.25	4.67	5.1	5.0
1899	5.00	4.40	5.0	5.0
1900	4.80	4.24	5.0	4.0
1901	4.98	4.52	4.8	3.0
1902	4.65	4.21	4.8	3.0
1903	4.63	4.21	4.5	3.0
1904	4.77	4.40	4.5	3.0
1905	4.73	4.38	4.5	3.5
Average rate	5.51	4.96	5.27	4.72

It was admitted in the testimony that in the investment of funds the tontine surplus was not separated from the other funds of the company, but that all were invested together.

A study of this table exhibits the following striking facts:

First. The net rate of interest is about $\frac{1}{2}\%$ below the gross rate of interest.

Second. The rate of interest employed in computing the annual dividend and regular surplus in every year since 1883, has been in excess of the net rate of interest earned on mean invested assets, averaging about $\frac{3}{10}$ of 1% in excess of the net rate.

Third. The rate of improvement of the tontine fund, has always, with the exception of the year 1899, been less than the rate employed in computing regular surplus, the difference being very small about $\frac{1}{10}$ of 1% from 1883 to 1890, varying from $\frac{6}{10}$ of 1% to nothing in 1891 to 1899 and varying from 1 to 1.8% in the period from 1900 to 1905. In the first period the tontine fund was necessarily small, since the company began writing these policies in the early eighties and they had not time to accumulate a very large fund. The slight difference of $\frac{1}{10}\%$ in this period had but a trifling effect upon dividends contingently apportioned to tontine policy holders. In the second period, from 1891 to 1899 the tontine fund had grown, but still the effect of the average difference of about $\frac{3}{10}\%$ between the rate employed in computing annual dividends and in improving the tontine fund was not sufficient to exercise a considerable effect upon the contingent dividend apportioned to the tontine policy holders. In the third period, however, the tontine fund had acquired large proportions, and it was in this period also, that the difference between the annual dividend rate and the tontine improvement rate reached its maximum. It was admitted in the testimony that the effect of this discrimination as between annual dividend policies and tontine policies was small in the early years of the policy, in fact might mean but a few cents each year, but that in the later years, as the policy was approaching the end of its tontine period when the contingent tontine dividend apportioned had attained a considerable figure, the difference in the annual interest credited on the tontine accumulation might be as large as three, four or five dollars per \$1,000 policy.

It is unnecessary to add that the effect of the wide difference between the rate of interest used to calculate the annual dividends and the rate of improvement of the tontine fund employed in 1900 and subsequently, has been to considerably diminish the earnings to the tontine policies whose tontine period had

been completed within these years, as well as the dividends now credited to such policies still in force.

A calculation made from the tables furnished by the company indicates the amount of the credits thus diverted from the tontine fund and apportioned as annual dividends within the last six years was in excess of \$2,000,000. The tontine fund by being credited with a less rate of interest contributed to the general surplus a certain sum of money, which sum of money helped to enable the company to make a credit of 4.8% as an interest factor in distributing its annual dividends. The actuary admitted that only part of that came back to the tontine policy holders through the annual dividends credited to them. (Test. p 455.)

The testimony shows that during the first part of the period of issuing these tontine policies, prior to about 1890, the company in its dividend statement made a separate item of interest on the tontine additions to the dividend; that later, this practice was discontinued, and in the statement furnished the policy holder the tontine additions, including interest, were stated in one lump sum. It also appears that the commissioner of insurance of this state, made inquiry of the president of the Northwestern as to whether or not such discriminations were made, and the latter replied in writing that there were no discriminations.

CONSIDERATION OF EXPLANATIONS OFFERED.

Each tontine policy contains a stipulation that if kept in force and the insured survives the tontine period it shall share in the surplus until the contributions found to have arisen from the policy are returned. It was not denied on the investigation and we do not believe it will be denied, that each policy holder is entitled to an equitable share of the surplus apportioned and arising upon or derived from contributions to the gains of the company.

The officers of the company have given various reasons for improving the tontine fund at a lower rate of interest than that employed in calculating annual dividends. Prior to the investigation complaining policy holders were informed by the actuarial department,

"That the reason why this fund was improved at a less rate

than the gross rate of interest earned by the company was that the expense must be charged against the gross interest rate, such as cost of making investments and care of investments, taxes and other expenses connected with the company's investments; also that the tontine fund should bear the expenses incurred wholly in the interest of the tontine members; that the tontine fund in the company is a matter that is, as it were, a department by itself and the care of the tontine fund is in no sense an advantage to the company at large."

(Letter to W. H. Cobban dated Nov. 22, 1905. (Test., p 450.)

Recognizing that the extra expense of caring for the tontine fund would be a mere trifle, the policy holder might well understand from this explanation that he was being allowed practically, the net rate of interest earned by the company. When upon the investigation the difference in the rate of interest was pointed out and estimated upon the total tontine fund to be from \$240,000 to \$400,000 for each year since 1899, this explanation was abandoned.

It was then insisted by the actuarial department that in former years the tontine fund was improved at a higher rate than the net rate of interest. The company was then required to furnish the committee with a statement showing year by year from the time the first tontine policy was issued to the present time, the gross rate of interest, net rate of interest, net rate at which the tontine fund was improved. This has already been fully discussed. In this connection it appears that from December 31, 1898, to December 31, 1901, there was a decrease in the general surplus of over \$1,000,000; that at the same time the company practically discontinued writing tontine policies. In 1901 the tontine fund was improved at only 3% interest while the net rate of interest earned by the company was 4.52% and the annual dividend rate 4.8%. Had the tontine fund been improved at the same rate as the annual dividend rate, to-wit, 4.8%, either the annual dividends would have been decreased, or there would have been an additional showing of a decrease in the general surplus of \$132,000.

It was conceded by the actuary that this condition might have had an influence with himself and the committee in causing them

to improve the tontine fund for that year at 1.8% less than the annual dividend rate. (Test., p 451.) Since December 31, 1901, the general surplus has been increased by \$4,000,000.

The fair inference from the testimony is that in view of the company's literature stating that the tontine fund would be improved at the rate employed in ascertaining the annual dividends, the policy holder understood that his tontine dividend would always be improved at the same rate as that used in ascertaining annual dividends. That this inference would be justifiable was not seriously questioned upon the examination.

The officers of the company further sought to explain this discrimination between the tontine and annual dividend policy holders, by asserting that in some years the annual dividend rate was in excess of the net rate earned by the company for the year, and that the tontine policy holders received more than they were entitled to by way of annual surplus apportioned to them as dividends. In connection with this explanation there are certain facts which must be noted:

First. The annual dividend policy holders for these years likewise received more than they were entitled to. This excess was paid to them annually and if error thus occurred, it has never been corrected. The dividends of the tontine policy holders remained with the company.

Second. The excess amount allowed in dividends for any particular year was drawn from the earnings on the tontine fund, and the tontine policy holders received in return but a part of such excess which was taken from their earnings, while they suffered a loss equal to the entire amount of the excessive annual dividends allowed and paid to annual dividend policy holders.

From whatever point this subject is examined we are led to the inevitable conclusion that the tontine policy holders have been greatly discriminated against in order to increase the annual dividends.

The extent of this discrimination is emphasized by the testimony which shows that during the last five years when the company was devoting itself almost wholly to writing annual dividend policies, the discrimination in the rates is greatest.

OTHER COMPANIES HAVE DISCRIMINATED.

Inquiries were made by the committee of other companies doing business in this state, as to the rate of interest at which the annual dividends were computed and the tontine fund improved. The replies of some of these companies indicate a similar discrimination.

The claim has been made by companies having tontine funds that this fund does not constitute a technical legal liability; that it is only a conditional liability; that it is a fund upon which the managers may draw at any time to maintain the solvency of the company. The testimony shows that the officers of the Northwestern exercised the power to draw upon this fund to increase the annual dividends. If this is justifiable then the companies may draw upon this fund to promote the interests of the company in other respects.

Some states have prohibited the writing of deferred dividend policies. The companies have but little further interest in the way of competition in maintaining a high rate of dividends upon these policies. So long as the tontine fund belonging to each class is not ascertained and a permanent record thereof made a diversion of considerable part of these funds can be made with little fear of detection.

The foregoing considerations emphasize the necessity of now requiring each company doing business in this state to make an ascertainment as to each class of tontine policies, of the share accumulated to each such class, and a credit of the same in a permanent account, and a report thereof to the commissioner of insurance showing the method of such ascertainment with the factors used in apportioning the regular surplus contribution to each accumulation, the rates of interest at which the accumulation has been improved, and the net rate of interest earned by the company from year to year, from the date of issue to the present time, and the rate of interest at which annual dividends have been calculated from year to year, during the same period.

Also, that a like ascertainment and report should be required for each succeeding year. That a contingent apportionment shall be required to be made to each individual policy holder of his share, and in future an annual statement made to each such policy holder.

This report and statement will, in a measure, expose to public scrutiny, the past treatment of deferred dividend policy holders, and prevent future discriminations.

It is believed that no company will object to such ascertainment and publicity thereof, unless its past treatment of tontine surplus has been such as will not stand the test of public opinion or its future purpose is to secretly discriminate against these policy holders.

UNION CENTRAL DIVIDENDS.

The annual dividends of the Union Central are also apportioned in accordance with the contribution plan. The dividend consists of three parts, namely, a contribution from interest, a contribution from mortality, and a contribution from loading, which are separately calculated and then added together to form the dividend.

THE MORTALITY FACTOR.

The practice of this company in returning the gains from mortality has shown considerable variation within the last ten years. From 1894 to 1900 the factor used in computing mortality gains was 30% from age 21 to age 39, thereafter decreasing 1% each year to age 65.

In submitting his report to the committee the actuary states, "I have never been able to ascertain why this was done, and believing that the same percentage should be allowed to all entrants of all ages, I have, during the last five or six years, gradually eliminated this feature in such a way as to avoid violent fluctuations in the results, until at the present time the percentage allowed is uniform upon all plans and for all ages."

The following table exhibits the factors used in computing the mortality gain for annual dividends of 1894:

Age.	Mortality factor.	Age.	Mortality factor.
	Per cent.		Per cent.
21 to 29	30	52.....	17
30	29	53.....	15
44	28	54.....	15
42	27	55.....	14
43	26	56.....	13
44	25	57.....	12
45	24	58.....	11
46	23	59.....	10
47	22	60.....	9
48	21	61.....	8
49	20	62.....	7
50	19	63.....	6
51	18	64.....	5
		65.....	4

These percentages held until 1897, in which year the dividend basis, so far as the mortality gains are concerned was the same as that of 1894, except for ages beyond 56, which were as follows:

Age.	Mortality factor.	Age.	Mortality factor.
	Per cent.		Per cent.
57	11	61.....	5
58	9	62.....	4
59	7	63.....	3
60	6	64.....	2
		65.....	2

The mortality gains were computed on the 1897 basis until 1901, when the percentages were again changed, as shown in the following schedule:

Age.	Mortality Factor.	Age.	Mortality Factor.
	Per cent.		Per cent.
21 to 45	40	55.....	30
46	39	56.....	29
47	38	57.....	28
48	37	58.....	27
49	36	59.....	26
50	35	60.....	25
51	34	61.....	24
52	33	62.....	23
53	32	63.....	22
54	31	64.....	21
		65.....	20

In 1902, the mortality factor was 40% from ages 21 to 55 and graded from that point down to 30% at age 65. In 1903, the factor from ages 21 to 56 was reduced to 38½% and graded to 31½% at age 65. In 1904, the factor was reduced to 37% from age 21 to age 57 and graded down to 33% at age 65. In 1905, the factor was reduced to 36% from age 21 to age 57, and was 35% from age 58 to age 64 and 34% at age 65.

It appears from the official returns of the company that the factors employed in computing mortality gains on paid-up policies, single premium policies, and reversionary additions, did not materially differ from the percentages employed on premium paying policies. At the present time, according to the above quoted statement, the same percentage is applied to all policies, irrespective of age or plan.

The following table taken from the gain and loss exhibit shows the percentage of actual to expected mortality from 1895 to 1905:

Year.	Percentage.	Year.	Percentage.
1895	70.00	1901	59.46
1896	70.00	1902	56.47
1897	75.98	1903	58.02
1898	64.23	1904	64.15
1899	57.27	1905	55.59
1900	69.35		

EXPENSE FACTOR.

The expense charge of the Union Central has been a percentage of the gross premium plus a fixed charge of \$2.00 per thousand of insurance. The percentage of the gross premium taken as expense charge depends upon the plan of policy and the number of years it has been in force. The percentages used since 1894 are in accordance with the following schedule:

PERCENTAGE OF PREMIUM FOR EXPENSES FROM 1894 TO 1900 INCLUSIVE.

Dividend.	Ordinary life.	20 payment life	15 payment life	10 payment life	10 year end.	15 year end.	20 year end
	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.
1	15	12	12	10	11	12	12
2	14	12	12	10	11	12	12
3	13	12	12	10	11	12	12
4	12	12	12	10	11	12	12
5	11	12	12	10	11	12	12
6 & over.....	10	12	12	10	11	12	12

PERCENTAGE OF PREMIUM CHARGED FOR EXPENSES FROM 1901 TO 1905
INCLUSIVE.

Dividend.	Ordinary life.	20 pay- ment life	15 pay- ment life	10 pay- ment life	10 year end.	15 year end.	20 year end.
	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.	Per ct.
1	18	16	15	13	12	13	14
2	17	15	14	12	11	12	13
3	16	14	13	11	10	11	12
4	15	13	12	10	10	10	11
5	14	12	11	10	10	10	10
6	13	11	10	10	10	10	10
7	12	10	10	10	10	10	10
8	11	10	10	10	10	10	10
9 & over	10	10	10	10	10	10	10

LIFE RATE ENDOWMENT POLICY.

From 1871 to 1891, a large part of the business of the company was done on the life rate endowment plan. Since 1891 comparatively little insurance has been written on this plan. The actuary of the company described the policy as follows: "The life rate endowment policy is simply an ordinary life policy in which there is a special agreement that there are no dividends or profits withdrawn by the insured, but they are left with the company as a fund to accumulate, and when that fund equals the face of the policy it is matured as an ordinary endowment. There is a clause in the policy itself which covers that special feature." This provision as it appears in the most recent form of life rate endowment policy, issued in June, 1904 is: "This policy will mature as an endowment, and will be payable in cash to the insured, when the premiums paid on the policy and its equitable proportion of the company's profits combined, less its share of losses and expenses shall become equal to its face value." A separate account is kept with the life rate endowment policies, as follows:

Credit the first premium less expenses, and interest upon the same, charge for the mortality, which gives the credit at the end of the first year; then add the second premium less expenses, credit interest gain, charge for mortality, which gives the credit at the end of the second year. This process is continued from year to year until the policy matures as an endowment in accordance with the above provision. Specific examples illustrating the method of keeping this account appear in another part of the report (see p 87). A table showing rates of interest, ex-

pense and mortality used in calculating credits on life rate endowment and life guaranty policies for the years 1886 to 1905 inclusive, is given in the appendix to this report. The credits on life rate endowment policies are carried to a separate fund called the life rate endowment surplus fund. This fund at the end of the year 1905, amounted to \$5,206,503.

INTEREST RATES AND DIVIDEND FACTORS.

The following table shows the interest earned by the Union Central on mean invested assets of the company from 1880 to 1905 inclusive, showing the gross rate and the net rate separately. The items of expense deducted from the gross rate in arriving at the net rate were loan expense and real estate expense. The rate of interest employed in computing annual dividends is given from 1894 to 1905, and the rate of interest employed in improving the life rate endowment fund is given from 1886 to 1905.

INTEREST RATES.

Mean invested assets, 1880 to 1905.

Year.	Gross rate.	Net rate.	Rate of annual dividend.	Rate of improvement of life rate endowment fund.
	Per cent.	Per cent.	Per cent.	Per cent.
1880	9.037	.....	.....	.....
1881	8.295	.....	.....	.....
1882	6.837	.....	.....	.....
1883	6.499	.....	.....	.....
1884	6.832	.....	.....	.....
1885	7.135	.....	.....	.....
1886	7.129	.....	.....	7.09
1887	6.429	.....	.....	7.00
1888	6.570	.....	.....	6.00
1889	5.930	5.792	.....	6.03
1890	6.163	6.035	.....	6.00
1891	6.613	6.121	.....	6.00
1892	6.415	6.152	.....	6.00
1893	6.656	6.181	.....	6.00
1894	6.786	6.329	6.00	6.00
1895	6.714	6.140	6.00	6.00
1896	6.844	6.313	6.00	6.00
1897	6.582	6.420	6.00	6.00
1898	6.924	6.211	6.00	6.00
1899	6.521	6.152	6.00	5.50
1900	6.228	5.269	6.00	5.00
1901	6.231	5.554	5.50	5.00
1902	6.697	5.291	5.00	5.25
1903	6.177	5.875	5.00	5.10
1904	6.058	5.443	5.00	5.25
1905	6.090	5.535	5.00	5.25
Average 1894 to 1905	6.463	5.878	5.625	5.529

It appears from this table that the company has earned a high rate of interest, and that the interest factor which it has employed since 1894 in computing annual dividends has, with the exception of the year 1900, been below the net rate of interest earned by the company. The rate of interest employed since 1886 in improving the life rate endowment fund, exceeded the net rate of interest in but one year, 1899. There was a material difference in the rate of interest used in computing annual dividends and improving the life rate endowment fund in the period from 1899 to 1901. In 1899 the difference amounted to 1-2%, in 1900 to 1%, in 1901 to 1-2%, in each case the excess being in favor of the annual dividend. In each year of the period from 1902 to 1905 inclusive there has been a small difference, the excess, about 1-4% being in favor of the life rate endowment fund. The actuary testified, in explanation of this difference that the company had tried to get as near the true rate as possible on the life rate endowments, but on the annual dividends their object had been rather to avoid violent fluctuations from year to year, to use a round rate and maintain it as long as possible rather than go into fractional rates and change them from year to year. The company was unable to furnish the method of calculation adopted for dividends, prior to the introduction of the 1894 basis.

The committee recommends the enactment of a law requiring all life insurance companies doing business in this state upon the participating plan, to annually, as of the 31st day of December, ascertain and determine the excess of its assets over its liabilities, and also the amount of unapportioned surplus which it will retain as a contingent reserve, and that after setting aside such unapportioned surplus, and such sum as may be required for the payment of authorized dividends upon the capital stock, if any, and such sum as may be properly held for account of existing deferred dividend policies, it shall apportion the remaining surplus equitably to all other policies entitled to share therein, and distribute the same within the year, beginning the first day of April, succeeding.

That each such company shall, on the first day of March, 1908, file with the commissioner of insurance a statement showing the amounts respectively of the unapportioned surplus, unpaid dividends, deferred dividend surplus and other surplus, and setting out fully and in detail, the method of ascertainment and apportionment of the profits, savings and earnings then accumulated,

together with the interest, mortality and expense factors used in apportioning the regular surplus contributing to such accumulation year by year from the date of the last distribution to the 31st day of December, 1907, and the rates of interest at which the accumulation has been improved from year to year during said time, and requiring a like ascertainment and apportionment and report as of the 31st day of December every year thereafter.

That the company be required to furnish to each policy holder entitled to share in such surplus, a statement of the apportionment of surplus, according to the last dividend ascertainment made three months or more prior to the policy anniversary, which statement shall set forth, among other things the sources of all gains, and also a statement of the unapportioned earnings for said year.

We likewise recommend the enactment of a law requiring the companies transacting business in this state and having outstanding tontine or deferred dividend policies, to ascertain and credit as of the 31st day of December, 1907, to each class of such policies, the amount of profits, savings, earnings or surplus then accumulated to provide for the apportionment and distribution agreed upon in the policy contract. Also to ascertain and credit the contingent share of every individual policy in each class, in such profits, savings or surplus then accumulated; and requiring all such companies on or before the first day of March, 1908, to file with the commissioner of insurance a statement showing fully and in detail the method of ascertainment of the profits or surplus then accumulated to each class of policies, together with the expense, mortality and interest factors used in apportioning the regular surplus contributing to such accumulation year by year, from the date of issue to the 31st day of December, 1907, the rate of interest at which the accumulation has been improved from year to year, and the net rate of interest earned by the company each year during the same time. Also a list of the classes of deferred dividend policies in force, and as to each class the following:

1. Year of issue.
2. Date of distribution.
3. Original number of policy holders.
4. Present number of policy holders.
5. Aggregate of the amount so contingently accumulated to such class of policy holders.

And requiring a like ascertainment and credits to be made as of the 31st day of December every year thereafter, and a like statement filed with the commissioner of insurance, on the first day of March every year thereafter.

Such company should also be required, not less than thirty nor more than sixty days prior to each policy anniversary occurring after the 31st day of March, 1908, while having deferred dividend policies in force, to mail to the insured named in each such policy, at his last known post-office address, a statement of the contingent apportionment of surplus to such insured, according to the last dividend ascertainment made three months prior to such policy anniversary, this statement to exhibit the regular surplus and the sources from which derived, the additional surplus showing the interest improvement on the contingent accumulation, gain from death, gain from lapses and surrenders.

or. We also recommend the enactment of a law requiring each company transacting business in this state to file with the commissioner annually a gain and loss exhibit as of December 31st each year; also a statement showing the rates of annual dividends declared during the year for all plans of insurance and for all durations and for ages at entry 25, 35, 45 and 55, and the precise method by which such dividends have been calculated. Also a statement of any and all reserve or surplus held by the company and for what purposes they are claimed respectively to be held.

The committee requested but two foreign companies to appear before it in Milwaukee for examination—the Union Central of Cincinnati, Ohio, and the Michigan Mutual of Detroit, Michigan. Both companies were licensed to do business in this state.

The Union Central promptly responded to our request, while the Michigan Mutual refused. It submitted no grounds for refusal which appealed to the committee as reasonable. The committee had no authority either to compel the attendance of this company or to examine it at its home office in Michigan.

After the investigation closed and before this report was prepared, the Union Central informed the committee that it had adopted a resolution, making the interest rate on policy loans uniform in all states.

The Northwestern has adopted a very fair and liberal loan agreement, which corresponds substantially with the loan agree-

ment recommended by the committee. It has also submitted to the counsel for the committee, the following changes and proposed changes in the practice of the company:

1. The 5% rate of interest fixed in July last for all new policy loans is to be applied to all old policy loans, also to all premium loan notes, regular and special; also to all interest charges on account of premiums in arrears, on all restorations of lapsed policies, correction of errors in age, policy changes and other policy adjustments.

2. The privilege of thirty days grace for payment of premiums, as incorporated in the policy contracts of this company, issued on and after August 1, 1900, is to be extended to all existing policies of this company, except those issued on the semi-tontine plan.

3. From and after January 1, 1907, the company will annually mail to each semi-tontine policy holder, at his last known address and for the date of his policy anniversary, a statement showing:

1. The tontine surplus accumulation credited to the policy at the beginning of the preceding year.
2. The rate of interest allowed on such accumulation.
3. The amount of regular surplus and additional or tontine savings apportioned for the year.
4. Total amount of tontine surplus credited at date of payment of the current annual premium.

4. On and after January 1, 1907, the premium rates for policies issued by this company are to be the net premium rates, according to the American Table of Mortality and 3% interest, the net premium for each plan to be loaded by a suitable percentage thereon uniform for all ages, but varying as desirable for different plans of insurance, such percentage of loading for each plan to be determined by the company.

5. On and after January 1, 1907, the policies of this company shall provide that any premium less dividend shall on default be charged with any other indebtedness, if any, against the surrender value of the policy, and that interest on such loan shall be charged annually at the same rate of interest as for policy loans, and if not paid when due shall in like manner be made a lien against the policy, with interest at the same rate, and that the policy shall be continued in force for the full amount thereof,



less the aggregate of such liens, until the surrender value of the policy shall thereby be exhausted, when the policy shall cease and determine.

6. On and after January 1, 1907, the participating policy holders of this company shall receive dividends annually as apportioned by the company, beginning in one year from the date of the policy contract, the dividend at the end of the first year to be in lieu of the extra dividend heretofore paid at the end of the fifth year.

7. On and after January 1, 1907, the dividends on all participating policies are to be allowed and paid upon the sole condition that the premium payment for the policy year current shall have been completed, and no such dividend shall be forfeited or withheld by reason of non-payment of premium for the year succeeding such current year.

RETALIATORY LEGISLATION.

The committee has given the subject of retaliatory legislation considerable attention, and considered its effect upon life insurance companies and policy holders.

Retaliatory laws appear to be enacted for the purpose,

First. As a standing intimidation of the legislative bodies of other states in which life insurance companies are domiciled.

Second. To inflict penalties upon foreign corporations, because of laws enacted by the state of their domicile.

Unlike all other laws they find no justification in the necessities, conditions or demands of the people of the state. It is our opinion that these laws, while placing enormous burdens upon policy holders of this country, are of no benefit to the insurance companies. It is estimated that since their first enactment they have cost the policy holders in life insurance companies millions of dollars, without affording them one iota of benefit or protection.

Under the operation of these laws, a deserving company from one foreign state may be burdened with restrictions and obligations as a condition of transacting a legitimate business beneficial to the citizens of this state; while a company from another state and of doubtful methods is admitted free from these exactions and burdens.

The state has a vital interest in the character, solvency and methods of all foreign insurance companies, transacting or proposing to transact business with the citizens of this state; but neither the state nor the public can have any concern whatever as to the policy of any other state, upon the subject of the admission of foreign corporations. It is the province of each state to determine its own policy upon this subject, without intimidation or reference to the policy of any other state. Retaliatory laws are founded upon a contrary conception. They are unique and indefensible, and it is said they find no justification, except in the barbaric doctrine of "an eye for an eye and a tooth for a tooth."

Mr. Marshall of the Union Central, in testifying before this committee upon the subject of retaliatory laws said: "The effect of these laws is vicious and imposes an additional burden on the policy holders. It makes insurance cost more."

In a recent argument made before the Wisconsin Tax Commission, the general counsel of the Northwestern Mutual, in speaking of these laws, said:

"Retaliatory laws are condemned by all and defended by none."

And again, "The Northwestern Mutual asks a recommendation by your honorable commission———— that such measures be taken as will remove from the statute books the retaliatory laws of this and other states."

We fully concur in the sentiments expressed in the foregoing quotations, and have no doubt, if the representatives of the insurance companies who so uniformly and vigorously condemn these laws upon all occasions when matters relating to their taxes are pending, would unite in an effort to have them repealed, there would not be a remnant of this "relic of barbarism" upon the statute books of any state of the Union within a period of two years.

The fact that other states may wait and falter is in our judgment no reason why this state should hesitate to take conspicuous leadership in the repeal of these laws.

In view of the foregoing considerations, we recommend the repeal of the retaliatory laws now in force in this state.

FRATERNAL INSURANCE.

The committee, early in its deliberations, found that the problems relating to legal reserve companies were such as to tax all the time at its disposal, and that there would be no time to give an adequate study to the question of fraternal insurance. It was, however, deemed advisable, to gather some statistics and information as to this subject. To this end, schedules were prepared and sent to all fraternal organizations transacting business in this state, calling for detailed information as to their assets, liabilities, receipts, disbursements, premium or assessment rates, number of members, respectively, over and under fifty years of age, and the number of deaths in each class; the amount of insurance in force and amount of assessments collected from each class, and the maximum and minimum policies issued on a single risk, together with other information bearing on their business and methods.

The committee held one open session to which the commissioner of insurance of this state, and representatives of all the fraternal orders doing business in the state, were invited. This meeting was very largely attended, and the committee recommends that the legislature order the proceedings of this meeting printed.

The law does not require the fraternal societies to carry any reserve, and they are charged with no reserve liability in determining their solvency, no matter on what assumptions their premiums or assessments are based. It is also generally known that they provide no reserve, the excess of their assets over their liabilities constituting merely a surplus which most nearly corresponds to the surplus of the legal reserve companies.

The result is that fraternal societies, paying their death claims from year to year, and having no provision in accumulated assets for insurance beyond the current year, are in reality writing temporary insurance, which is furnished at a high charge to the younger members, and an insufficient charge to the older members. Many of the difficulties which confront fraternal societies arise from the fact that the certificates or contracts issued by them, are understood by their members to be practically, whole life insurance contracts. Any one familiar with the principle of charging the cost of insurance upon the amount at risk, can

readily understand that the fraternal societies, accumulating no reserve, and hence having at risk, an amount equal to the full face of the certificate throughout the whole period of the contract, must in the higher ages come to a disastrous end, because the premiums or assessments collected are too small to meet the death claims. This is well illustrated by the reports submitted to the committee by two societies. One reports for the year 1904, 3170 members under fifty years of age, and 2222 over fifty years of age; that in the class under fifty years of age there were 16 death claims, amounting to \$17,000, and there was collected from this class \$36,647; that in the class over fifty years of age, there were 49 death claims, amounting to \$49,000, and there was collected from the members of this class \$34,684. It thus appears that while the younger class had but 35% of the losses, they paid over 52% of the assessments.

Another society reports for the same year 156 members under fifty years of age, with three death claims, and that there was collected from the members of this class \$10,759. This society also reported 683 members over fifty years of age, with 21 death claims, and a collection from this class in assessments of \$9,971. It appears from this report that the younger class sustained but 14% of the losses, and paid almost 52% of the assessments. There are several other societies in a similar condition, though not so extreme.

It is but just to say that these difficulties in the fraternal system of insurance are recognized by many of the representative officials. There are, however, many honest and influential members within their ranks, who fully believe that their methods are correct, and that they will be able to continue their business along the present lines, notwithstanding hundreds of similar organizations operating under this plan have failed on account of the increased death claims in the higher ages, exceeding the ability or willingness of the members to pay the assessments.

The subject of excessive expenses has received much consideration in the preceding pages, and in this and other connections, the fraternal societies manifest some elements of strength. A comparison between the fraternal societies and the legal reserve companies as to the expenses, and the actual benefits paid in death claims, is instructive.

The actual value of the insurance furnished by any company

for any current year, exclusive of the expense element, is shown by the payment of death claims. This is true without regard to the kind of company or society, and without regard to the kind of insurance written. The following figures are taken from the report of the commissioner of insurance for Wisconsin, for the year ending December 31, 1905:

In the Northwestern Mutual the actual death claims paid amounted to \$4,989,073, while the total expense amounted to \$5,538,177, or 111% of the death claims. Of this expense \$5,156,504 was insurance expense, or 105% of the death claims. The total death claims of the thirty-five companies doing business in Wisconsin were \$92,360,127, and the total expenses \$122,399,598, or 132% of the death claims.

The Modern Woodmen of America, the largest fraternal society disbursed for death claims the amount of \$6,616,044, and disbursed for expenses \$938,020, or 14% of the death claims. The death claims of sixty-seven fraternal societies doing business in this state amounted to \$13,888,503, and the disbursements for expenses to \$6,685,432, or 15% of the death claims.

It should be noted in this connection that a share of the expenses of the legal reserve companies, consists of investment expenses and taxes, which are practically omitted from the expenses of fraternal societies, but as these expenses constitute a very small proportion of their aggregate expenses, the ratio is not greatly altered.

It appears from the foregoing that while the death claims of the legal reserve companies doing business in this state amount to but a little over double those of the fraternal societies, the expenses of the legal reserve companies amount to eighteen times those of the fraternal societies. Much of this difference in expenses is due to the fact that in the fraternal societies the soliciting of new business is done practically without compensation, whereas, in the legal reserve companies, where everything must be paid for, this is often the greater part of the expense. The tendency to extravagant expenses of management has spread to the fraternal societies many of which show a great increase in expenses in recent years.

The value of the foregoing comparisons would be greatly strengthened to the credit of the fraternal societies, if they represented their insurance to be what it really is, merely temporary

insurance and generally written at insufficient rates for the higher ages.

These societies have a representative government, which comes nearer to making them mutual in fact, than any other form of insurance organization. Their social bonds do much to prevent lapses and induce the younger members to bear the inequalities in the charges for insurance.

We are convinced that an earnest effort is being made by many of these societies to devise some feasible plan of avoiding the difficulties mentioned. Several of the leading representatives of the fraternalists who appeared before the committee, urged the propriety of advertising and writing their insurance for what it really is. The committee does not feel, from the study it has been able to give this subject, it is prepared to recommend any legislation which would prove beneficial to the members of these societies.

INDUSTRIAL INSURANCE.

No original investigation has been made by the committee on the subject of industrial insurance, but we desire to call attention to its condition as developed by the New York committee and as shown in the reports made to the insurance commissioner. These serve to make clear the fact that there is excessive waste in the business as at present conducted, and consequent loss to the policy holders. An examination shows that the average of all policies in force Dec. 31, 1905, was less than \$150, and that the rates charged are nearly double those of old line legal reserve companies. The policy holders are as a rule least familiar with business and least able to sustain the loss. They are entitled to every safeguard which it is within the power of the state to provide. The problems involved in this kind of insurance are similar to those which have been considered in the report, and the evils are accentuated by the conditions above stated.

The committee has made frequent requisitions upon the insurance companies doing business in the state and has requested tabular statements of their conditions and methods of doing business. With but one exception, the requisitions have been cheerfully honored and much valuable data has been furnished to the committee.

We are further pleased to say that the companies examined by the committee extended every courtesy during the preparation for hearings and promptly complied with all demands made upon them.

In conclusion, the committee states it has endeavored throughout this investigation to make a thorough and impartial examination of the life insurance business. To this end, experienced legal counsel, capable actuaries and the best procurable assistants have been engaged to aid in the public hearings, drafting of the report and in preparing such legislation as appears to be necessary to better protect the interests of the people of Wisconsin.

With this report, we transmit the following proposed bills:

1. A bill defining the terms used in legislation relating to life insurance.

2. A bill to provide for and regulating the election of directors and trustees of domestic mutual life insurance companies.

3. A bill to provide for the appointment by the governor of one additional director upon the board of every domestic life insurance company.

4. A bill to provide for the admission of life insurance companies of other states, and amending section 1948 of the statutes of 1898.

5. A bill prohibiting life insurance companies from writing both participating and non-participating policies, in this state.

6. A bill requiring stock companies to ascertain, determine and report to the commissioner of insurance, the respective rights of policy holders and stockholders in unassigned surplus.

7. A bill to amend the law with respect to the valuation of policies.

8. A bill relating to the form of policies of life insurance and applications therefor and prescribing certain standard provisions.

9. A bill prescribing limitations of the premiums.

10. A bill prescribing limitations of expenses.

11. A bill prescribing limitations of salaries.

12. A bill to prohibit rebating.

13. A bill to prohibit misrepresentations.

14. A bill to provide for an original accounting to classes

of deferred dividend policy holders, an annual accounting thereafter, and a report thereof to the commissioner of insurance.

15. A bill to provide for an annual accounting.

16. A bill repealing chapter 418 of the laws of 1899, chapter 175 of the laws of 1895 and chapter 270 of the laws of 1899.

17. A bill requiring all companies transacting business in this state to furnish policy holders, upon application, a copy of their application for insurance.

18. A bill requiring life insurance companies transacting business in this state, to report to the commissioner of insurance, all disbursements made in opposing or promoting legislation, and to keep an accurate account thereof.

19. A bill to repeal the insurance retaliatory laws.

20. A bill to require the cancellation of the license of any foreign life insurance company making contributions for campaign purposes, and requiring annual reports under oath in reference thereto.

21. A bill to limit the amount of insurance to be written on one life by a domestic life insurance company.

The foregoing proposed legislation has been given careful consideration by the committee. Its enactment into law will strengthen public confidence in the management of life insurance companies and give substantial protection to every legitimate interest. Unanimously reported subject to any memoranda noted upon the proposed bills.

Respectfully submitted,

JAMES A. FREAR,

JULIUS E. ROEHR,

JACOB RUMMEL.

On the part of the Senate.

H. L. EKERN,

W. S. BRADDOCK,

GEO. E. BEEDLE,

B. S. POTTER.

On the part of the Assembly.

Dated, Madison, Wisconsin,
December 1st, 1906.

PROPOSED BILLS.

(No. 1.)

A BILL

To create section 1946x of the statutes of 1898 defining certain words and phrases used in the laws relating to life insurance.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. There is added to the statutes of 1898 a new section to read as follows:

Section 1946x. Unless the context of any statute or law relating to life insurance indicates otherwise, the following words and phrases shall be understood in the sense herein set forth and defined:

1. "Amount at risk," is the difference between the face of the policy and the terminal reserve.
2. "Application," is any preliminary contract between the insured and the company.
3. "Beneficiary," is the person in whose favor a policy is written.
4. "Company," includes all corporations, associations, partnerships or individuals, engaged as principals in the business of life insurance, except fraternal or beneficiary corporations, societies, orders of associations for the relief of members or beneficiaries, orders on associations for the relief of members on the mutual or assessment plan.

5. "Deposit," is the terminal reserve on a policy discounted to the beginning of the policy year at the rate of interest assumed.

6. "Domestic company," is any company organized or incorporated under the laws of this state.

7. "Expense charge," is the provision made in the policy at the beginning of the policy year for the expense on account of such policy during such policy year. Under the net level premium continuous term plan, with uniform gross premium, it is so-called 'loading.'

8. "Face of policy," is the payment stipulated in the policy to be made upon its maturity.

9. "Foreign company," is any company not organized or incorporated under the laws of this state.

10. "Insured," is the person upon whose life the contract of insurance is written.

11. "Mortality charge," is the provision made in the policy at the beginning of the policy year for the mortality on account of such policy year, according to the tables of expense and mortality adopted and the rate of interest assumed.

12. "Policy," is the contract issued by the company to the insured.

13. "Policy anniversary," is the anniversary of the date of the policy.

14. "Policy year," is the year beginning with the policy anniversary.

15. "Premium," is the payment stipulated in the policy to be made by the insured to the company during any one policy year.

16. "Reserve," is the sum sufficient, with the premiums coming due, to provide for the future expense and mortality charges, and mature the policy according to its terms, all computed upon the tables of expense and mortality charges adopted and the net rate of interest assumed.

17. "Terminal Reserve," is the reserve at the end of the policy year.

SECTION 2. This act shall take effect and be in force from and after its passage and publication.

(No. 2.)

A BILL

To create sections 1947b, 1947c, 1947d, 1947e, 1947f, 1947g, 1947h, 1947i, 1947j of the statutes of 1898, providing for the election of directors of mutual life insurance companies and for regular stated meetings thereof.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. There are added to the statutes of 1898 nine new sections to read as follows:

Section 1947b. At every election of directors or trustees in any domestic mutual life insurance company, whether incorporated by special act or under general law and anything to the contrary in its charter, certificate, articles of incorporation or by-laws, notwithstanding, every policy holder whose insurance shall be in force, and shall have been in force for at least one year prior thereto, shall be entitled to vote without other qualification. Every policy holder entitled to vote shall have the same number of votes irrespective of the number of policies or the amount of insurance held by him, and shall have one vote for each director to be elected, and may cast all such votes for one candidate or distribute them among the number as he may elect. Unless a policy shall have been assigned more than six months prior to the election by an assignment absolute on its face to an assignee other than the company which shall have issued the policy, the person upon whose application the policy shall have been issued, and if the application be signed by more than one person, the person whose life is insured shall be deemed to be the policy holder entitled to vote as aforesaid. In case a policy shall have been assigned as aforesaid, the assignee shall be deemed to be a policy holder entitled to vote provided his signature, either attested by the assignor or acknowledged in like manner as in case of a deed to be recorded in this state, shall have been filed at the home office of the company. Any policy holder entitled to vote at any election shall be qualified to fill any office to be voted for at such election.

Section 1947c. Every such company shall prepare and publish in book form, a full and correct list of the names and last known post office addresses of all policy holders whose insurance was in force twelve months prior to the date fixed for such election. The names of said policy holders shall be classified in the following order: 1. by countries; 2. by states and territories; 3. by post offices; and all shall be arranged alphabetically. The said published list shall upon the request of any policy holder and his payment to the company of one dollar, be mailed and delivered to such policy holder.

Section 1947d. 1. At least five months prior to the date of any election of regular directors in any such company, the trustees shall appoint three qualified voters as inspectors of election, who shall be paid by the company, and shall nominate candidates for every vacancy to be filled at said election, and shall file with the commissioner of insurance a certificate thereof, giving the names, occupation and addresses of the inspectors so appointed and candidates so mentioned.

2. Any officer, trustee, agent or employee of such company who shall directly or indirectly nominate or assist or encourage the nomination of any other candidate or candidates for the office of director other than those on the administration ticket, or who shall use or expend any of the property or funds of the company in promoting the election of any nominee, candidate or person, shall be guilty of a misdemeanor.

3. Any ten or more qualified voters of such company may make other nominations for one or more vacancies to be filled at any such election, by filing with the commissioner of insurance, at least three months before the election, and at the home office of the company, a certificate signed and acknowledged by them, giving the names, occupation and addresses of the candidates so nominated.

4. In case of death or incapacity of any candidate so nominated, a majority of the board or persons making such nomination may nominate another candidate in his place by filing, prior to the day set for the election, a like certificate with that required for original nominations to be filed in like manner. If such certificate be filed more than ten weeks prior to the election, the name of such candidate shall be inserted in the ballot.

Section 1947e. Not more than ten nor less than eight weeks

prior to any such election, the company shall cause to be mailed in a sealed and post paid envelope, to each policy holder whose name shall be upon the list and whose policy shall still be in force, at his last known post office address, a suitable gummed return envelope addressed to the home office of the company and marked "Ballot for Directors," together with a ballot containing in two columns the names of the candidates nominated as hereinbefore provided, arranged alphabetically. One column designated, "Administration Nominees" shall contain the names of the candidates nominated by the directors or trustees. Another column designated "Policy Holders Nominees" shall contain the names of candidates nominated by the policy holders. No other papers or written or printed matter shall be inclosed with such ballot and envelope, and specimens of the ballot, return envelope and sealed envelope shall be filed with the commissioner of insurance before being so mailed. Duplicates of such ballot shall, prior to the election, be promptly furnished by mail by the company to any policy holder applying therefor.

Section 1941f. The provisions contained in the following instructions to policy holders shall apply to and govern in all such elections. All votes shall be by ballot, but any ballot complying with said instructions may be used. No ballot shall be received or counted unless prepared and voted substantially as herein provided. The ballot shall be in the following form:

Ballot for election of directors.

For (name of company, home office post office address)

To succeed the director whose term expires as follows:.....

.....

Instructions to policy holders.

The policy holder is entitled to the same number of votes irrespective of the number of policies and amount of insurance held by him, and is entitled to one vote for each of the..... directors to be elected, and may cast all such votes for one candidate or distribute them among the number as he may elect. Votes shall be indicated by a numeral placed after the name of the person voted for thus: "John Doe, Farmer, Madison, Wisconsin." (1)" No fractional vote will be recognized, nor any ballot recording a greater number thanvotes.

The ballot shall specify the number of at least one policy held

by the policy holder, be signed by him, and his signature attested by a subscribing witness, and shall be inclosed in a sealed and post paid envelope, marked on the address side "Ballot for Directors," addressed to said company at its home office without any mark or designation to indicate the identity of the voter mailing the same, and mailed by him in person so as to be delivered before 4 P. M. on..... 19....

A ballot prepared in like manner, without being post paid, may, between 10 A. M. and 4 P. M. on said day be voted in person by the policy holder at the home office of the company.

ADMINISTRATION NOMINATIONS.		POLICYHOLDER'S NOMINATIONS.	
(John Doe, Farmer, Madison, Wis.)	Vote here	(Richard Doe, Banker, Milwaukee, Wis.)	Vote here

Attested by.....

Signed by.....

..... P. O. Address.....

P. O. Address..... Policy No.

Section 1941g. All elections of the company shall be held at its home office and the polls shall be open from ten o'clock in the forenoon until four o'clock in the afternoon of the day of the election, at which time they shall be closed, and after which time no ballot shall be received.

Section 1941h. 1. All envelopes received at the home office of the company before the polls are closed on the day of election, marked substantially as "Ballot for Directors," shall be preserved intact without opening, and before the polls are closed shall be delivered to the inspectors of election.

2. Any person concealing or with-holding, or participating in the concealment or with-holding from the inspectors, or opening or being privy to the opening of any such envelope containing such ballot, except as authorized by law, shall be guilty of a misdemeanor.

3. All ballots voted and received by mail or delivered personally at the office of the company shall be received by the inspectors subject to verification and ascertainment of the valid-

ity thereof and of the qualification of the voter; and, immediately upon the closing of the polls, the inspectors shall proceed to open the envelopes containing such ballots and to the examination thereof and shall canvass the votes lawfully cast. The canvass shall proceed from day to day, and the inspectors shall certify the result to the company and to the commissioner of insurance as soon as it is completed. Any nominee at such election may be present during the casting and canvass of the votes. All ballots and envelopes received by said inspector's shall immediately, upon the completion of the canvass, be placed in sealed packages and preserved by them until four months from the date of the election, subject to the order of any court having jurisdiction of any proceeding relating thereto.

The person receiving the highest number of votes shall be elected. Where more than one director is to be elected at the same time the persons standing highest in the number of votes cast, without regard to the ticket on which their names were placed, shall be elected.

Section 1947i. The including by the corporation of the name of any person in any list of policy holders required by this section shall not be construed as an admission by the corporation of the validity of any policy; and no such list shall be competent evidence against the corporation in any action or proceeding in which the question of the validity of any policy or of any claim under it is involved.

Section 1947j. The trustees or directors of every mutual life insurance company aforesaid shall hold regular stated monthly meetings; and the absence of any such trustee or director from three such consecutive regular meetings, unless the minutes thereof show that such absence is due to sickness, shall vacate his office, and he shall not be qualified to hold such office either by election or appointment for six months thereafter.

SECTION 2. This act shall take effect and be in force from and after its passage and publication.

(No. 3.)

A BILL

To create section 1947k of the statutes of 1898, providing for the appointment by the governor of one additional director for each domestic mutual life insurance company.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. There is added to the statutes of 1898 a new section to read as follows:

Section 1947k. 1. The governor is hereby authorized and directed to appoint on the board of trustees or directors of every mutual life insurance company organized under the laws of this state, one director in addition to the number prescribed by the charter or by-laws of such company, notwithstanding anything in any general or special law or such charter or by-laws to the contrary.

2. The first appointment shall be made ten days or more prior to the next annual election of trustees or directors in such company. The term of office of such director shall begin upon the filing of his appointment and continue until the expiration of the longest term of any director on such board. A new appointment shall be made ten days or more prior to the expiration of such term, to take effect upon such expiration and hold for a term equal to the longest term of any director on such board. Notice of any appointment of such director shall immediately be given to the president of such company.

3. Said director shall have the same qualifications, possess and exercise the same powers, and receive the same compensation as other directors. His compensation shall be paid by the company.

4. It shall be the duty of such director to act as one of the inspectors of all elections, and to make an annual report to the governor on the general affairs of the company, and a special report upon any transaction of the company when so requested by the governor.

5. A vacancy in the office of such director may be created by death, resignation or removal by the governor for cause, or by absence from three consecutive regular meetings of the board,

unless the minutes thereof show that such absence is due to sickness. All such vacancies shall be filled by the governor by appointment, provided that no such director vacating his office by absence shall be eligible to re-appointment within six months after the happening of such vacancy.

SECTION 2. This act shall take effect and be in force from and after its passage and publication.

(No. 4.)

A BILL

To create sections 1947m and 1947n of the statutes of 1898, providing for a deposit by life insurance companies with the state treasurer, and the conditions under which such deposit may be omitted.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. There are added to the statutes of 1898, two new sections to read as follows:

Section 1947m. No life insurance company shall be licensed to transact business in this state, nor shall any person act as agent or otherwise within this state in receiving or procuring applications for life insurance, or in any manner aid in transacting such business for any such company, unless it shall have deposited with the state treasurer in his official capacity securities mentioned in section 1951 of the statutes of 1898 and the acts amendatory thereof, equal to the liabilities upon all its policies outstanding and held by the residents of this state. The amount of such liability shall be ascertained by the commissioner of insurance, pursuant to the laws of this state, and certified by him to the state treasurer. The company shall have the right at any time, subject to the written approval of the commissioner of insurance filed with the state treasurer, to change the securities on deposit by substituting a like amount of the character required in the first instance. If the annual valuation of the policies in force shows them to be less than the amount of security deposited, the company may withdraw such excess.

Section 1947n. Provided, that in lieu of the deposit provided for in section 1947m, any such company may duly execute and file with the state treasurer, in his official capacity as aforesaid, the following agreement, to-wit: "It is hereby agreed and stipulated, by and between..... an insurance company organized under the laws of the state of..... (hereinafter called the company), and the state of Wisconsin in consideration of the granting of a license by the state of Wisconsin to the company, and the continued payment of premiums by all or any of the policy holders of the company residing in the state of Wisconsin.

1. That the company shall in the event of its determination to withdraw from the state of Wisconsin, sixty days prior to such withdrawal, duly notify the commissioner of insurance of said state of its intention so to withdraw.

2. That as soon as practicable thereafter, the said commissioner of insurance shall ascertain the liability of the company on every policy in force in this state, as provided by the laws thereof.

3. That for the purpose of making such valuation, he may employ competent actuaries who shall be paid by the company.

4. That thereupon the company shall deposit with the state treasurer of the state of Wisconsin, the amount of such liability so ascertained in the securities mentioned in section 1951 of the statutes of 1898, and the acts amendatory thereof.

5. That a like valuation shall be made on the first day of January of each year, or as soon thereafter as practicable, to be paid for in like manner; and within thirty days after notice of the amount of such valuation, the company shall, if the amount of such ascertained valuation shall have increased, deposit additional like securities equal to such increased valuation.

6. That in case of any default in the deposit of such securities as aforesaid, the company shall pay in cash to the treasurer of the state of Wisconsin, the amount of such liability so ascertained, together with all additions thereto to the date of payment, to be collected, if not so paid, in an action brought by the attorney general in the name of the state of Wisconsin against the company in any court of said state or of any other state or of the United States.

7. That in case of the insolvency of said company, such se-

curities or money on deposit or recovered in judgment against such company shall vest in the state of Wisconsin for the benefit of the policy holders on account of whose policies such deposits were made or judgment recovered, and the proceeds of the same shall be divided among the holders thereof or at any time be applied to the purchase of re-insurance for their benefit as may be ordered by any court of this state having jurisdiction in the premises; and

8. That this contract is made and entered into solely for the protection of the present and future policy holders of said company residing in this state, and that nothing herein contained is intended or shall be construed as in any manner whatever limiting or abridging the powers of the commissioner of insurance as provided by the existing laws of the state or laws which may hereafter be enacted."

SECTION 2. This act shall take effect and be in force from and after its passage and publication.

(No. 5.)

A BILL

To create section 1947o of the statutes of 1898, prohibiting the writing of participating and non-participating business by the same life insurance company.

The people of the state of Wisconsin, represented in senate and assembly, do enact of follows:

SECTION 1. There is added to the statutes of 1898 a new section to read as follows:

Section 1947o. 1. After the year 1907, no domestic mutual life insurance company and no domestic stock life insurance company hereafter issuing or professing to issue any participating policies, shall issue any policies except annuities, which do not, by their terms, give to the holders thereof full right to participate in the accumulations of such company as provided by the laws of this state.

2. After the year 1907, no foreign mutual life insurance company and no foreign stock life insurance company issuing or

professing to issue, after such date, any participating policies, shall issue within this state any policies except annuities, which do not, by their terms, give to the holders thereof full right to participate as aforesaid.

3. After the year 1912, no foreign mutual life insurance company and no foreign stock life insurance company issuing or professing to issue, after such date, any participating policies, shall transact business in this state if it shall issue any policies except annuities, which do not, by their terms, give to the holders thereof full right to participate as aforesaid.

4. This section shall not apply to paid-up or temporary and pure endowment insurance issued or granted in exchange for lapsed or surrendered policies.

SECTION 2. This act shall take effect and be in force from and after its passage and publication.

(No. 6.)

A BILL

To create section 1841p of the statutes of 1898, requiring foreign stock life insurance companies to determine and report the respective rights of policy holders and stockholders in unassigned surplus before being licensed to do business in this state.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. There is added to the statutes of 1898, a new section to read as follows:

Section 1841p. Every stock company doing life insurance business on the participating plan shall, when applying to do business in this state, and before any license or certificate of authority shall be issued, file with the commissioner of insurance a statement under oath of the president and secretary, stating,

(a) The amount of the unassigned surplus of such company;

(b) The portion thereof accumulated upon the participating business of the company.

(c) The portion thereof accumulated upon the non-participating business of the company;

(d) The amount of said surplus belonging to the policyholders;

(e) The amount of such surplus belonging to the stockholders;

(f) The method of ascertainment and the action upon the part of the stockholders or such company determining the rights of such policyholders and stockholders respectively.

No license, certificate or authority to transact business in this state shall be issued to any such stock company until such statement is made, and the commissioner of insurance is satisfied that the respective rights of such policyholders are fully and legally determined.

SECTION 2. This act shall take effect and be in force from and after its passage and publication.

(No. 7.)

A BILL

To amend section 1950 of the statutes of 1898, as amended providing a minimum standard of mortality and the limits of the rate of interest to be assumed, and to create sections 1950a, 1950b, 1950c and 1950d of the statutes of 1898, providing conditions for the issue of policies of life insurance, and for the valuation thereof.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. Section 1950 of the statutes of 1898, as amended by section 1 of chapter 519 of the laws of 1905, is amended, and three new sections are added to the statutes of 1898, to read as follows:

Section 1950. 1. *Every life insurance company transacting business in this state, or having in force in this state, policies written or issued therein, shall hold funds properly and safely secured*

to provide for its reserve liability over and above all its other liabilities, which reserve liability shall be ascertained as follows:

(a) All policies for which no other method of valuation is herein provided shall be valued on a net level premium reserve basis computed on the American Experience Table of Mortality and the rate of interest assumed by the company, except that such valuation shall be made at a rate of four and one-half per centum per annum where a greater rate is assumed by the company.

(b) Provided, that upon the policies issued upon a plan providing for less than the reserve aforesaid during the first year of insurance, only such reserve shall be computed for such first year as shall have been provided for under such plan, and correspondingly higher reserves shall be computed for the succeeding years.

(c) All policies issued during the year 1907 on the basis of the American Experience Select and Ultimate table of mortality, shall be valued on said basis and the rate of interest assumed, except that such valuation shall be made at the rate of three and one-half per centum per annum where a higher rate is assumed by the company.

(d) All policies issued after the year 1907 shall be valued according to the tables of expense and mortality adopted and the rate of interest assumed, except where the said expense, mortality and interest assumptions shall not be within the limitations provided by the laws of this state as to policies to be issued therein after the year 1907.

The commissioner of insurance shall annually make or cause to be made, net valuations of all outstanding policies, additions thereto and all other obligations of every life insurance company transacting business in this state, and for the purpose of such valuations, and for making special examinations of the condition of life insurance companies as provided for by the laws of this state, such net value shall be computed upon the basis of the "American Experience Table of Mortality" with interest at such rate as assumed by the company, provided that the rate assumed shall not be less than that determined by the legal minimum standard prescribed by the laws of this state.

2. In every case in which the actual premium charged for an insurance is less than the net premium for such insurance, com-

puted according to the table of mortality and rate of interest as aforesaid, the company shall also be charged with the value of an annuity, the amount of which shall equal the difference between the premium charged and that required by the rules above stated, and the term of which in years shall equal the number of future annual payments due on the insurance at the date of the valuation.

3. *In every case wherein the valuation of any policy shall be based upon a premium providing for expenses, the valuation shall include a liability to cover the expense provision so made.*

The aggregate net value so ascertained of all policies of any such company shall be deemed its reserve liability, to provide for which it shall hold funds, properly and safely secured, of an amount equal to such net value above all its other liabilities. Whenever the laws of any other of the United States authorize or require an annual valuation of life insurance policies by the insurance department of any such other state, or when such valuation of any company has been made by the department of commerce and labor, according to the standard herein provided, the valuation so made according to the said standard of the policies and other obligations of any life insurance company not organized under the laws of this state, and certified to as true and correct by the insurance commissioner of such other state, or by the secretary of the department of commerce and labor, shall be received and accepted, and no further annual valuation of the policies of such company shall be required or made by the commissioner of insurance of this state.

4. *The valuation made by the insurance department of any other state of the United States under the laws of such state requiring an annual valuation to be made by such department, according to a standard or standards provided by such laws, of any policies written or issued by a company located in another state, if the standard or standards so used shall be such as is permitted to be used under the law regulating the issue of new policies within this state after the year 1907, and such valuation shall be in the form required by the laws of this state, and shall be certified to as true and correct by the insurance commissioner of such state, shall be received and accepted by the commissioner of insurance of this state, and no further valuation shall be re-*

quired or made by him for the year in which such valuation shall be so certified.

5. The valuation of the department of commerce and labor of the United States authorized by any law thereof, as to any company located outside of this state, if conforming to the aforesaid provisions as to valuations by the commissioners of other states, shall be received and accepted in like manner.

6. Except as aforesaid the commissioner of insurance shall annually make or cause to be made valuations of all outstanding policies, additions thereto, and other obligations of every such company.

7. All valuations shall be in writing and in such form as prescribed by the commissioner of insurance. Such valuations shall be separate for policies issued within and without this state for the policies issued prior to the first day of January, 1908, and for those issued thereafter, and for each subdivision above specified and for each separate table of mortality and rate of interest assumed. Separate returns shall be made thereof which shall be accompanied by the table of mortality used, a statement of the rate of interest assumed, the method of computation employed, and illustrations thereof by way of specific examples.

Section 1950a. There shall be paid by every life insurance company organized in this state and by every life insurance company organized under the laws of some other state or foreign country, if no certified valuation has been furnished as provided by law, by way of compensation for the valuation of its policies, one cent on every one thousand dollars insured by it, which shall be paid to the commissioner of insurance into the state treasury.

Section 1950b. The commissioner of insurance, to comply with the requirements of this section, shall appoint an actuary at a salary not exceeding twenty-four hundred dollars per year, and an assistant actuary, at a salary not exceeding fifteen hundred dollars per year, who shall hold their respective positions until removed for cause, and such appointments shall be certified in writing and filed in the office of the secretary of state.

Section 1950c. Whenever any life insurance company organized under the laws of any foreign country, shall have been admitted, it shall also be the duty of the commissioner of insurance to annually and separately value all policies written in or on the

lives of residents of this state, and it shall be the duty of such company, as one of the conditions of renewal of license, to invest and at all times keep invested the aggregate net value of such policies, in such securities as provided for under the laws of this state, and deposit such aggregate amount in such securities at their book value, with the state treasurer; every such company depositing such securities shall have the right to receive the income thereof, and to exchange the same from time to time for like securities of like value, and may withdraw such deposit when the commissioner of insurance shall certify that all liabilities arising under all policies or contracts issued in or on the lives of residents of this state have been satisfied, and that there is no further necessity for such deposit.

SECTION 2. There is added to the statutes of 1898, a new section to read as follows:

Section 1950d. 1. No policy of life insurance shall be written or issued in this state after the year 1907, unless it contains a table conforming to that herein required.

2. Before any policy of life insurance shall be written or issued within the state of Wisconsin, by any life insurance company after the year 1907, the company shall file with the commissioner of insurance for each age of each kind of insurance to be written, a table showing for each year during the possible history of the policy, the premium, the provision for expense called the "expense charge," and the provision for mortality called the "mortality charge," and the discounted terminal reserve, called the "deposit," together with the mortality table and rate of interest employed in computing such premiums, expense charge, mortality charge and deposit.

3. The deposit for each year shall be such sum as, together with interest to the next policy anniversary, shall at that time provide a sum as a terminal reserve, sufficient, with the premiums coming due, to provide for the future expense charges and mortality charges, and to mature the policy according to its terms, all calculated according to the table of mortality adopted, and rate of interest assumed.

4. The table of mortality adopted, if other than the American Experience, the Actuaries, or the American Experience Select and Ultimate, shall not exhibit at any age a lower death rate

than that shown at the corresponding age and duration by the British Offices Select O. (M) Mortality Table.

5. The net rate of interest assumed in computing premiums and reserves shall be not less than two and one-half, nor more than four per centum per annum.

6. No such table shall be filed until the correctness of the same shall have been certified by the president and actuary of the company and shall have been verified by the commissioner of insurance, and such verification certified thereon under his hand and seal.

SECTION 3. This act shall take effect and be in force from and after its passage and publication.

(No. 8.)

A BILL

To create sections 1948a, 1948b, 1948c, 1948d, 1948e, 1948f, 1948g, 1948h, 1948i, 1948j, 1948k, 1948l, 1948m, 1948n, 1948o, 1948p, 1948q, 1948r, 1948s, 1948t, 1948u, 1948v and 1948w of the statutes of 1898, relating to the form of policies of life insurance and application therefor, and prescribing certain standard provisions to be contained therein.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. There are added to the statutes of 1898, twenty-three new sections to read as follows:

Section 1948a. No policy of life insurance shall be written or issued within this state after the year 1907, by any company, unless a copy of the form of such policy and a copy of the table to be contained therein shall have been first approved by the commissioner of insurance as hereinafter provided. The form of such policy shall be printed throughout in the same color of ink and in type of a uniform size and arrangement, and shall be arranged in the order of the following sections, and contain the provisions of said sections omitting the section numbers. The language of the sections not inclosed in brackets shall be used.

Only such alterations may be made and such other provisions inserted as indicated by the matter in brackets.

Section 1948b. (Here insert formal part of policy, specifying: name and post office address of company, of insured and of beneficiary; amount and term of policy; amounts, numbers and dates of premium payments; and the time and manner of payment of the policy. The time of the premium payments shall be on the anniversary of the date of the policy, called the "policy anniversary," except that provision may be made for payments at shorter intervals, by carrying a part or parts of the premium as a loan from the date of the policy anniversary.)

Section 1948c. This policy shall be incontestable after ("insert a time not exceeding one year") from its date.

Section 1948d. The company agrees that during the term of this policy the premium payments herein provided shall be credited, when paid, as of the policy anniversary to the individual account of the insured, and on each policy anniversary a credit shall be made of interest on the balance, at the last preceding policy anniversary, herein called the "deposit," and charges shall be made for the ensuing year against such account, for the provision for insurance expense, herein called the "expense charge," and the provision for death claims, herein called the "mortality charge." The expense charge, mortality charge and deposit for the beginning of each policy year, according to the table of mortality and interest at the rate of per centum per annum, are as follows:

Policy year.	Expense charge.	Mortality charge.	Deposits.	Policy year.	Expense charge.	Mortality charge.	Deposit
1.....	\$.....	\$.....	\$.....	21.....	\$.....	\$.....	\$.....
2.....	22.....	.....	.....	.....
3.....	23.....	.....	.....	.....
4.....	24.....	.....	.....	.....
5.....	25.....	.....	.....	.....
6.....	26.....	.....	.....	.....
7.....	27.....	.....	.....	.....
8.....	28.....	.....	.....	.....
9.....	29.....	.....	.....	.....
10.....	30.....	.....	.....	.....
11.....	31.....	.....	.....	.....
12.....	32.....	.....	.....	.....
13.....	33.....	.....	.....	.....
14.....	34.....	.....	.....	.....
15.....	35.....	.....	.....	.....
16.....	36.....	.....	.....	.....
17.....	37.....	.....	.....	.....
18.....	38.....	.....	.....	.....
19.....	39.....	.....	.....	.....
20.....	40, etc.....	.....	.....	.....

Section 1948e. After a notice in writing to the company of not less than one year (or such less term as may be stipulated in the policy) nor more than two years, the insured may demand and the company shall pay, on the anniversary of the policy, the full amount of the deposit including interest for the year last past, (provided that no such surrender shall be made prior to the second policy anniversary). (The last provision may be omitted at the option of the company.)

Section 1948f. The company agrees to make loans upon the sole security of the policy, after the second policy year, from funds on hand, in the order of the application therefor, to an amount, which together with other indebtedness, shall not exceed (insert figures not less than "ninety") per centum of the deposit as specified herein for the last preceding policy anniversary, payable as may be agreed upon, with interest at such rate, not exceeding six per centum per annum, as may be established by the company for all policy loans. Such loan shall be a lien against the policy, upon the endorsement thereon of a memorandum thereof, without other evidence than a note of the following tenor:

The undersigned.....of.....insured under policy No.....of the.....Life Insurance Company of.....for value received, promises to pay to said company the sum of.....dollars on.....with interest from date until paid, at the rate of.....per centum per annum, payable annually on the anniversary of said policy or on prior maturity, with interest at the same rate on unpaid sums of interest after due until paid, with the option of paying on any policy anniversary ten dollars or multiples thereof on the principal. The said indebtedness, until fully paid, is hereby made a lien upon the said policy.
Dated at....., 19....

.....
Section 1948g. Upon the non-payment of any premium when due, after the first policy year, the same shall, without any act on the part of the insured, be charged as a loan against the policy, upon the same terms as herein specified for other policy loans, except that no note or endorsement of a memorandum thereof

on the policy shall be required, and such loan shall pay such premium.

Section 1948h. The right to either the aforesaid automatic premium loan, or to a loan upon application, shall not be affected by the existence of any prior loan or indebtedness, and any loan or indebtedness may be repaid in whole, or in installments of not less than ten dollars each, on any anniversary of the policy, and the non-payment of any loan or indebtedness or interest when due, shall, except as herein provided, without any action on the part of the insured, extend the same to the next anniversary of the policy, and like extension shall be made upon any subsequent default.

Section 1948i. No policy loan, other than a premium loan, shall be a lien upon the policy, unless a memorandum thereof be endorsed thereon.

Section 1948j. After notice thereof shall have been given by mailing to the insured and beneficiary named in this policy at their last known post office addresses not less than thirty nor more than sixty days prior to the termination herein provided for, the insurance under this policy shall be terminated upon the policy anniversary whenever the deposit with interest to the next policy anniversary, together with the value of all additions at the last mentioned time, shall not exceed the amount of all indebtedness, with interest to such next policy anniversary. In this event the policy and additions thereto, and all indebtedness shall be cancelled and the balance, if any, in excess of the indebtedness shall be returned to the insured.

Section 1948k. This policy shall share in the savings and profits of the company in proportion to its contributions thereto, to be ascertained and apportioned annually as of the last calendar year, according to the discretion of the board of directors, and credited to the dividend account of the insured on the policy anniversary occurring three months or more after such year. (This section shall be omitted in non-participating policies.)

Section 1948l. The insured may, at his option, elect to have the dividend paid or applied in any manner herein specified, written notice of which election shall be given to the company prior to the anniversary on which said dividend is payable. If no such notice shall have been given, the dividend shall be applied auto-

matically on the policy anniversary in the order of the options following: 1. In payment of any loan or interest or premium due and unpaid. 2. To the purchase of paid up additions to the policy. 3. To accumulate with interest at...per centum per annum, subject to withdrawal on any policy anniversary. 4. To be paid in cash. (The order of the options after the first may be altered. This section shall be omitted in non-participating policies.)

Section 1948m. (The provisions as to a change of beneficiary may be inserted here.)

Section 1948n. A policy payable to the wife of the insured shall not, during her lifetime, be subject to a change of the beneficiary, surrender or a loan, other than the automatic loan herein provided for, without the consent in writing of the wife, attested by two witnesses. The premium or any indebtedness may be paid by any beneficiary, who shall only have a claim against the policy on account of such payment, upon giving the company written notice thereof, and having a memorandum thereof endorsed on the policy. Except as aforesaid, the beneficiary, as such, shall have no right or interest in the policy while the insured is living.

Section 1948o. (The company shall here insert a provision for an adjustment in case of a misstatement of age.)

Section 1948p. (The company shall here insert the time and manner of payment of the benefits under the policy, the present value thereof, at the time of the maturity of the policy, shall not be less than the face value.)

Section 1948q. All premiums shall be payable in advance at the home office of the company, or to any agent thereof, upon delivery of a receipt signed by one or more of the officers named in the policy, and counter-signed by the agent.

Section 1948r. This policy, together with a copy of the application attached hereto at the time of its delivery, shall constitute the entire contract between the parties.

Section 1948s. (The policy may here provide for such other agreement or stipulation as shall not be inconsistent with any of the foregoing provisions, provided that no provision containing in whole or in part the substance of the following shall be inserted;

1. A provision for forfeiture of the policy or for any termination thereof for any other reason than that hereinbefore specified;

2. A provision limiting the time within which any action may be commenced upon the policy to less than six years after the cause of action shall accrue;

3. A provision by which the policy shall purport to be issued or to take effect before the application therefor was actually made;

4. A provision for any mode of settlement at maturity of less value than the amount insured on the face of the policy, plus divided additions and unpaid dividends, if any, less any indebtedness to the company on the policy, and less any premium that may by the terms of the policy be deducted.

5. A provision constituting the person soliciting the insurance, or any person who is engaged in the business of soliciting insurance for the company issuing the policy or certificate and whose compensation is either paid by the company or is contingent upon the issuing of the policy, the agent of the insured under the policy or certificate, or making the acts or representations of such person binding upon the insured.

6. Nothing shall be incorporated in the contract between the parties by reference to any constitution, by-laws, rules or other writings.

Section 1948t. (In participating policies a provision shall here be inserted relating to dividend additions.)

Section 1948u. This contract is made in the state of Wisconsin and shall be so construed.

Section 1948v. (Here insert formal closing part of contract, date and signatures of the officers or agents authorized to execute the contract according to the statutes of the state of organization and the charter and by-laws of the company.)

Section 1948w. Every application for any policy mentioned in section 1948a, shall contain on the first page of such application the table specified in said section, which shall contain the figures for the full term of the policy. Every such application shall also contain the following provision: "All statements purporting to be made by the insured, whether contained herein or not, shall, in

the absence of fraud, be deemed representations and not warranties."

A copy of the application shall be attached to each policy before its delivery to the insured.

Section 2. This act shall take effect and be in force from and after its passage and publication.

(No. 9.)

A BILL

To create section 1950m of the statutes of 1898, limiting the premium which may be charged by life insurance companies.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. There is added to the statutes of 1898, a new section to read as follows:

Section 1950m. After the year 1907 no policy of life insurance shall be written or issued in this state by any company, wherein the present value of the premiums stipulated to be paid shall exceed the sum of (a) the net single premium which will mature the policy according to its terms (exclusive of any expense provision), such present value and net single premium to be computed on the basis of the table of mortality adopted, and the rate of interest assumed; and (b) an amount as a provision for expenses equal to one-fourth of the net single premium on an ordinary life policy issued at the same age, computed according to the American Experience Table of Mortality, with interest at three per centum per annum.

The amount provided for expense for any policy year shall not exceed:

1. In the first year, the difference between the premium and the mortality charge for such year.

2. In any one of the four succeeding years, the mortality charge for such year, or one-half the difference between the premium and the mortality charge for such year, whichever is the greater.

3. In any year after the fifth year, the expense provision of any previous year of the policy.

SECTION 2. This act shall take effect and be in force from and after its passage and publication.

No. 10.

A BILL

To create sections 1950n, 1950o, 1950p, 1950q, 1950r, 1950s and 1950t of the statutes of 1898, limiting the expenses to be incurred or paid by life insurance companies after the year 1907, and requiring reports thereof.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. There are added to the statutes of 1898, seven new sections to read as follows:

Section 1950n. No life insurance company, doing business in this state after the year 1907, or having in force in this state any policy written or issued therein after said date, shall incur or expend, or permit any person, firm or corporation to incur or expend on its behalf, or under any agreement with it, upon policies written or issued in this state during any calendar year, for the purposes specified in subdivision b, in this section, an amount exceeding in the aggregate the total provision for expenses specified in subdivision a, in this section.

Section 1950o. No such company shall, in any calendar year, on account of all policies then or theretofore written or issued in this state, make or incur any expense, or permit any expenses to be made or incurred on its behalf or under any agreement with it, for all purposes (exclusive of such expenses for medical examinations and inspections of proposed risks as are actually paid from the gains on mortality, and of such investment expenses, taxes, fees and licenses as are actually paid from the savings on interest and the contingency reserve), in an amount exceeding in the aggregate the total provision for expense specified in subdivision c in this section.

Section 1950p. Every such company shall, beginning with the first day of March, 1909, and on the first day of March of each year thereafter, as of the calendar year preceding make a report in writing to the commissioner of insurance, verified by the president and secretary, and in the following form:

Report of of expense provisions and expenditures for the year ending

Wisconsin First-year Business.

- (a) Total provision for expenses of first year contained in premiums received upon policies written and issued in this state during said calendar year, as set forth in the table of expense charges therein contained \$....
- (b) Total expenses incurred or paid,
 - 1. For commission on first year's premiums.....
 - 2. For compensation not paid by commission for services in obtaining new insurance.....
 - 3. For such part of the expenses of medical examinations and inspections of proposed risks not actually paid from savings on mortality.....
 - 4. For advertising
 - 5. The due proportion well and truly ascertained of all other expenses properly charged to first year's business, exclusive of expenses for medical examinations and inspections of proposed risks, actually paid from gains on mortality, and of investment expenses, taxes, fees and licenses, actually paid from the savings on interest and the contingency reserve.....
- Gain from first year's expense provision.....

Wisconsin Business.

- (c) Total provision for expenses becoming available on all policies written or issued in this state during said calendar year, being the loading on business issued before 1908 and the expense charge on business issued after 1907... \$....

(d) Expenses for medical examinations and inspections of proposed risks.....	.....
Amount actually paid from the gains on mortality .....	.....
	<hr/>
Excess of above expenses.....	\$....
Investment expenses	\$....
Taxes .....	....
Fees and licenses.....	....
	<hr/>
Total	\$....
Amount actually paid from	
Savings on interest.....	\$....
Contingency reserve .....	....
	<hr/>
Total	\$....
	<hr/>
Excess of above expenses.....	\$....
All other expenses.....	....
	<hr/>
Total	\$....

Section 1950q. No company mentioned in section 1950n shall, in any calendar year, after the first policy year, make or incur any expense, or permit any expense to be made or incurred on its behalf, or under any agreement with it, on account of any policy written or issued in this state after said date (exclusive of such expenses for medical examinations and inspections of proposed risks as are actually paid from the gains on mortality, and of such investment expenses, taxes, fees and licenses as are actually paid from the savings on interest and the contingency reserve), greater than the expense charge specified in such policy as becoming available during such calendar year.

Section 1950r. No such company, nor any person, firm or corporation on its behalf, or under any agreement with it, shall pay or allow to any agent, broker or other person, firm or corporation, for procuring an application for life insurance, for collecting any premium thereon or for any other service performed in connection therewith, any compensation other than that which has been determined in advance.

Section 1950s. All bonuses, prizes and rewards, and all increased or additional commissions or compensation of any sort, based upon the volume of any new or renewed business, or upon the aggregate of policies written or paid for, or upon any other contingency, are prohibited.

Section 1950t. Sections 1950o, 1950q, 1950r and 1950s shall not apply to stock corporations, issuing and representing themselves as issuing non-participating policies exclusively.

SECTION 2. This act shall take effect and be in force from and after its passage and publication.

No. 11.

A BILL

To create sections 1947r and 1947s of the statutes of 1898, limiting the salaries or compensation which may be paid to the officers, agents or employees of any life insurance company doing a mutual or participating business.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. There are added to the statutes of 1898, two sections to read as follows:

Section 1947r. No domestic life insurance company transacting a mutual or participating business shall incur or expend in any one year for any salary, compensation or emolument to any officer, trustee, director, agent or employee of such company, either directly or indirectly, any sum in excess of twenty-five thousand dollars, unless a greater maximum shall have been fixed by a majority vote of the policyholders voting at any regular election of directors. Notice of the submission of such question shall be given by mail to each policyholder at the same time as the notice of the election is required to be given. This section shall not apply to contracts now in force which shall contain no provision for the abrogation thereof by reason of a change in the laws of the state, and as to any such contracts in force, the company shall report fully at the time of filing each annual report.

Section 1947s. No domestic life insurance company shall pay any salary, compensation or emolument to any officer, trustee or director thereof, nor any salary, compensation or emolument amounting in any year to more than five thousand dollars to any person, firm or corporation, unless such payment shall be first authorized by a vote of the board of directors of such company. No such company shall make any agreement with any of its officers, trustees or salaried employees whereby it agrees that for any services rendered or to be rendered he shall receive any salary, compensation or emolument that will extend beyond a period of twelve months from the date of such agreement. No such company shall grant any pension to any officer, director or trustee thereof, or to any member of his family, after his death.

SECTION 2. This act shall take effect and be in force from and after its passage and publication.

No. 12.

A BILL

To amend section 1955o of the statutes of 1898, relating to discrimination by life insurance companies.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. Section 1955o of the statutes of 1898 is amended to read as follows:

Section 1955o. 1. No life insurance company doing business in this state shall make or permit any distinction or discrimination in favor of individuals between insurants of the same class and equal expectation of life in the amount or payment of premiums or rates charged for life or endowment policies, or in the dividends or other benefits payable thereon, or in any other of the terms and conditions of the contract it makes.

2. No such company or any agent thereof *shall* make any contract or agreement as to such contract other than as plainly expressed in the policy issued pursuant thereto, nor pay or allow or

offer to pay or allow as an inducement to any person to insure any rebate of premium payable on the policy, or any special favor or advantage whatever in the dividends or other benefits to accrue thereon, or any valuable consideration or inducement whatever not specified in the policy.

3. *No such company or any agent thereof shall at the time of soliciting insurance or issuing a policy, or at any time in consideration of or in connection with a policy issued or proposed to be issued, make or offer to make any contract or agreement whatever for any deduction from any premium or any addition to any dividend or other benefit whatever, on account of services rendered or to be rendered by the applicant for the policy or any person interested therein, either as an advisor of the company or as a member of an advisory or similar board or body or in any other capacity or manner whatever; nor contract for, sell or offer for sale any stocks, bonds or other certificates representing any interest or property in any organized company or corporation which shall at the time be under any contract or agreement whatever with such life insurance company, or own or control any of the stock thereof, or in any case where any part of the stocks, bonds or certificates of indebtedness of such company or corporation shall be owned or held by such life insurance company. No person shall so contract with any such company or agent thereof, or receive any such favor, privilege or advantage whatever, within the meaning of this act.*

4. *Any officer, director or agent aforesaid or person contracting with such company, officer, director or agent, in violation of any of the provisions of this section shall be punished by a fine of not less than fifty dollars nor more than three hundred dollars or by imprisonment in the county jail for a term not exceeding six months, or by both such fine and imprisonment.*

5. *Whenever it shall appear to the satisfaction of the commissioner of insurance after a hearing before him upon notice, that any company, officer, agent, sub-agent, helper's agent, broker or solicitor has violated any provision of this section, he shall revoke the license of any such company or person to transact business in this state, and no other license shall be issued to any such company or person within three years after such revocation.*

6. *Any such corporation, company, officer or agent of such cor-*

poration or company shall, upon demand in writing by the commissioner of insurance, furnish said commissioner with the form or forms of all insurance policies, the form or forms of all contracts for insurance and the form or forms of any other paper or papers pertaining to any contract of insurance or the maintenance of the same, issued or used or authorized to be issued or used by said corporation or company or by its agents or representatives in or about the business of life insurance carried on by said corporation or company. Upon the failure on the part of such corporation or company or its agents or representatives to fully comply with such demand, within a period of fifteen days after the service of the same, the commissioner shall forthwith revoke the authority of such corporation or company, or the license of such agent to do business in this state. Service of such demand upon an agent of such corporation or company within this state, or a deposit of the same registered and addressed to the home office of such corporation or company shall be sufficient service.

7. No person, officer or agent of any corporation within the purview of this act shall be excused from attendance, testifying or producing books, papers, contracts, agreements or documents or privileged from testifying in relation to anything herein prohibited before the commissioner of insurance or any court, or in obedience to the subpoena of any court having jurisdiction of the offense herein prohibited, on the ground or for the reason that the testimony or evidence, documentary or otherwise required of him, may tend to criminate him or subject him to a penalty or forfeiture.

8. But no person shall be liable in any suit or prosecution, civil or criminal, for or on account of any transaction, matter or thing concerning which he may testify or produce evidence, documentary or otherwise before said commissioner or said court, or in obedience to the subpoena of said court or the demand of said commissioner or in any such case or procedure; provided that no person so testifying or producing such books, papers, contracts, agreements or documents shall be exempt from prosecution and punishment for perjury committed in so testifying.

9. No evidence of any violation of the provisions of this section shall be received in any action brought against the company upon any policy after the death of the insured.

SECTION 2. This act shall take effect and be in force from and after its passage and publication.

No. 13.

A BILL

To create section 1946f of the statutes of 1898, prohibiting misrepresentation by life insurance companies, and providing a penalty therefor.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. There is added to the statutes of 1898, a new section to read as follows:

Section 1946f. No life insurance corporation doing business in this state, and no officer, director, or agent thereof, shall issue or circulate, or cause or permit to be issued or circulated, any estimate, illustration, circular or statement of any sort misrepresenting the terms of any policy issued by it, or advantages promised thereby, or the dividends or share of surplus to be received thereon, or shall use any title of any policy or class of policies, misrepresenting the true nature thereof, and no life insurance company, its officers, directors or agents, shall issue or circulate or cause or permit to be issued or circulated, any written circular or statement of any sort, wilfully misrepresenting any other company, the nature or terms of its policy or policies, its premium charge or dividends allowed or returned by such other company.

Any officer, director or agent aforesaid, found guilty of violating any of the provisions of this act, shall be punished by a fine of not less than twenty-five dollars nor more than three hundred dollars, or by imprisonment in the county jail for a term not exceeding six months.

SECTION 2. This act shall take effect and be in force from and after its passage and publication.

(No. 14.)

A BILL

To create sections 1952f, 1952g and 1952h of the statutes of 1898, providing for the ascertainment and apportionment of deferred dividend surplus and requiring reports thereof.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. There are added to the statutes of 1898 three new sections to read as follows:

Section 1952f. On all policies of life insurance heretofore or hereafter issued in this state, under the conditions of which the distribution of profits, savings, earnings or surplus is deferred for more than five years from the date of the policy, and contingent upon the policy being in force and the insured living at the completion of the period for which such distribution is deferred, the company shall, as of the thirty-first day of December in each year, after the year 1906:—

(a) Ascertain and credit as to each class of such policies the amount of profits, savings, earnings or surplus then accumulated to provide for the apportionment and distribution agreed upon in the policy contracts:

(b) Ascertain and credit the contingent share of every individual policy in each class, in the profits, savings, earnings or surplus then accumulated.

Section 1952g. The amount of profits, savings, earnings or surplus so ascertained and credited to each class of such policies under subdivision (a) of section 1952f, together with the interest earnings and accretions thereto, shall be carried as a distinct and separate liability to such class of policies.

Section 1952h. The company shall, on or before the first day of March, in each year, after the year 1907, file with the commissioner of insurance, a statement verified by the secretary and actuary, showing fully and in detail the method of ascertainment of the profits, savings, earnings or surplus then accumulated to each class of policies under subdivision (a) of section 1952f; the interest, mortality and expense factors used in apportioning the regular surplus contributing to such accumulation, year by

year from the date of issue to the thirty-first day of December last preceding; the rates of interest at which the accumulation has been improved from year to year, with the net rate of interest earned by the company each year during the same time; and a list of the classes of deferred dividend policies which it has in force, and as to each class the following:

1. Year of issue.
2. Date of distribution.
3. Original number of policy holders.
4. Present number of policy holders.
5. Aggregate of the amount so contingently accumulated to such class of policy holders.

Section 1952i. Not less than thirty nor more than sixty days prior to each policy anniversary occurring after the thirty-first day of March, 1908, every company having in force in this state any policies mentioned in section 1952f shall mail to the insured named in each such policy at his last known post office address, a statement of the contingent apportionment of surplus to such insured, according to the last dividend ascertainment made three months or more prior to such policy anniversary, which statement shall be in the following form:

ANNUAL STATEMENT OF CONTINGENT APPORTIONMENT OF SURPLUS.

Statement for 19...

Name:

Mortality table:

Number of policy:

Interest basis.....%

Date of distribution,.....19....., payable only in accordance with the terms of the policy contract.

Regular Surplus:

Gain from interest computed at%	\$
Gain from mortality charge computed at....%	\$
Gain from expense charge	\$
Gain from all other sources	\$
Total regular surplus	\$
Interest earned by company, gross...%, net...%	
Mortality gain actual experiences....%	

Additional surplus:

Interest on contingent accumulation at%	\$
Gain from death	\$
Gain from lapse and surrender	\$
Total additional surplus,	\$
Contingent accumulation at end of preceding year	\$
Contingent accumulation December 31, 19....	\$
.....	Secretary.

SECTION 2. All acts and parts of acts inconsistent with this act are hereby repealed.

SECTION 3. This act shall take effect and be in force from and after its passage and publication.

(No. 15.)

A BILL

To create sections 1952a, 1952b, 1952c, and 1952d of the statutes of 1898, providing for the annual apportionment and distribution of surplus, and requiring reports thereof.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. There are added to the statutes of 1898, five new sections to read as follows:

Section 1952a. Every life insurance company doing business in this state shall annually, as of the thirty-first day of December, ascertain and determine the excess of its assets over all reserve liabilities and all other liabilities constituting its profits, savings, earnings or surplus, and also the amount of unapportioned surplus which it will retain therefrom as a contingency reserve. After setting aside such unapportioned surplus, such sums as may be required for the payment of authorized dividends upon the capital stock, if any, and such sums as may properly be held for account of existing deferred dividend policies, the remaining

surplus shall be apportioned equitably to all other policies entitled to share therein.

Section 1952b. On all participating policies of life insurance heretofore or hereafter issued in this state, excepting policies of paid-up or temporary and pure endowment insurance issued or granted in exchange for lapsed or surrendered policies, and policies, under the conditions of which, the distribution of profits, savings, earnings or surplus is deferred for more than five years from the date of the policy, and contingent upon the policy being in force and the insured living at the completion of the period for which such distribution is deferred, the company shall annually before the first day of March, beginning with the year 1908, as of the thirty-first day of December preceding, ascertain and credit the share of each such policy in the profits, savings, earnings or surplus then accumulated.

Section 1952c. 1. The amount of profits, savings, earnings or surplus so ascertained to be due to each such policy, together with the interest earnings and accretions thereto, shall be carried as a distinct and separate liability to such policy and shall, except as otherwise provided in contracts heretofore issued, be paid or applied or be subject to be withdrawn at any time or be paid upon the maturity or termination of the policy.

2. Policies which have become payable before the time when the distribution as provided in the contract is made, and after the date of the last previous distribution, shall share in the same equitably and proportionally.

3. The company shall, annually on or before the first day of March, after the year 1907, file with the commissioner of insurance in such form as he may require, a statement verified by the secretary and actuary, showing the amounts respectively of the unapportioned surplus, unpaid dividends, deferred dividend surplus mentioned in section 1952a and other surplus; and showing fully and in detail, the method of ascertainment and apportionment of the profits, savings, earnings or surplus then accumulated on the policies within the provisions of section 1952b; the interest, mortality and expense factors used in apportioning the regular surplus contributing to such accumulation year by year, from the date of the last distribution to the thirty-first day of December preceding, and the rates of interest at which the

accumulation has been improved from year to year during the same time.

Section 1952d. Not less than thirty nor more than sixty days prior to each policy anniversary occurring after the thirty-first day of March, in any year after the year 1907, every company having in force in this state any policy within the provisions of section 1952b shall mail to the insured named in each such policy, at his last known post office address, a statement of the apportionment of surplus to such insured according to the last dividend ascertainment made three months or more prior to the policy anniversary, which statement shall be in the following form:

ANNUAL STATEMENT OF DIVIDEND APPORTIONMENT.

Statement for 19...

Name:

Mortality table:

Number of policy:

Interest basis.....%

Date of distribution.....19.....

Regular Surplus:

Gain from interest computed at.....% \$

Gain from mortality charge computed at.....% \$

Gain from expense charge \$

Gain from all other sources \$

Total dividend credit for year \$

Dividend credit at end of preceding year \$

Interest credited \$

Total dividend credit December 31, 19.... \$

Interest earned by company, gross....%, net....%

Mortality gain actual experiences.....%

Total unapportioned surplus \$

Secretary.

SECTION 2. This act shall take effect and be in force from and after its passage and publication.

(No. 16.)

A BILL

To repeal chapter 270 of the laws of 1899 and chapter 448 of the laws of 1901, relating to life insurance upon the stipulated premium plan.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. Chapter 270 of the laws of 1899 and chapter 448 of the laws of 1901, are repealed.

SECTION 2. This act shall take effect and be in force from and after its passage and publication.

(No. 17.)

A BILL

To create section 1953b of the statutes of 1898, requiring life insurance companies to furnish a copy of application.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. There is added to the statutes of 1898, a new section to read as follows:

Section 1953b. Every person within the state holding a policy of insurance issued by any life insurance company doing business in this state, shall be furnished by such company with a copy of the application upon which policy was issued, upon demand made for such copy by the holder of such policy or by any person upon whose life such policy was issued.

If such company wilfully neglect or fail for thirty days from

the time of such demand, to furnish such person a copy of such application, it shall be forever barred from setting up by way of defense to any suit on such policy of insurance, any error, incorrectness, fraud or misrepresentation of the person making the same, or any mistake therein; and such application shall thereafter be taken and held, so far as the same may affect any claim under such policy, or any gain secured thereby, to be in all respects true and correct.

SECTION 2. This act shall take effect and be in force from and after its passage and publication.

(No. 18.)

A BILL

To create section 1953e of the statutes of 1898, regulating life insurance companies, and requiring them to report to the commissioner of insurance moneys disbursed and other consideration paid in opposing and promoting legislation.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. There is added to the statutes of 1898 a new section to read as follows:

Section 1953e. As a condition precedent to the issuing of a license to transact life insurance business in this state, every life insurance company shall file with the commissioner of insurance a statement verified by its president and secretary, setting forth a schedule showing in detail; (a), the bills opposed or promoted by it during the preceding year; (b) the state in which such legislation was pending; (c) names and addresses of parties engaged as counsel or otherwise; (d) the consideration paid each of them; (e) and the expenses of advertising, traveling, etc., and to whom paid; (f) and that such disbursements and expenses have been truly entered upon the books of the company, together with such other information in relation thereto, as the commissioner of insurance may require.

SECTION 2. This act shall take effect and be in force from and after its passage and publication.

(No. 19.)

A BILL

To repeal section 1221 of the statutes of 1898, providing for the increase of fees of foreign insurance companies.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. Section 1221 of the statutes of 1898 is repealed.

SECTION 2. This act shall take effect and be in force from and after its passage and publication.

(No. 20.)

A BILL

To create section 1953d of the statutes of 1898, requiring life insurance companies to report to the commissioner of insurance all contributions made for political purposes.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. There is added to the statutes of 1898, a new section to read as follows:

Section 1953d. As a condition precedent to the issuance of a license to transact life insurance business in this state, every life insurance company shall file with the commissioner of insurance a statement verified by its president and secretary, setting forth a schedule showing in detail, the moneys, property and other consideration paid or contributed, directly or indirectly, or used or offered or agreed to be paid in aid of any political party, com-

pany or organization, or for and in aid of any corporation, joint stock or other organization organized or maintained for political purposes or for or in aid of any candidates for political office or for nomination for such office, or for the reimbursement or indemnification of any person for property so used; the names and addresses of parties, companies or organizations to whom paid, the time, place and amount so disbursed or paid, and that such disbursements have been truly entered upon the books of the company, together with such other information in relation thereto, as the commissioner of insurance may require.

SECTION 2. This act shall take effect and be in force from and after its passage and publication.

(No. 21.)

A BILL

To create section 1947q of the statutes of 1898, limiting the amount of insurance to be written on one life by a domestic life insurance company.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. There is added to the statutes of 1898 a new section to read as follows:

Section 1947q. No domestic life insurance company shall write or issue any policy of life insurance, whereby it shall become liable contingently in whole or in part upon the life of one person in a sum which, together with the liabilities then or theretofore assumed in whole or in part contingent upon the life of the same person, shall exceed twenty-five thousand dollars, unless a greater maximum sum shall have been fixed by a majority vote of the policy holders voting at any regular election of directors. Notice of the submission of such question shall be given by mail to each policy holder at the same time as the notice of such election is required to be given.

SECTION 2. This act shall take effect and be in force from and after its passage and publication.

(No. 22.)

A BILL

To amend section 1948 of the statutes of 1898, relating to licenses to life insurance companies.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. Section 1948 of the statutes of 1898 is hereby amended to read as follows:

Section 1948. *No company shall transact business in this state until it shall have obtained a license therefor from the commissioner of insurance.*

No such license shall be issued until the company has complied with all the requirements of the laws of this state, nor until after such examination as he may require, the commissioner is satisfied that its assets are properly and safely secured and exceed its liabilities, valuing its policies as provided by the laws of this state.

Wherever any such corporation shall apply for a license to transact business in this state, the commissioner or some person authorized by him shall examine its capital stock and assets, and when satisfied that it has complied with the requirements of the preceding section and with all other requirements of law, and that its actual funds are properly and safely secured, and, according to the American Experience table of Mortality, are of a net value equal to the net value of its policies or certificates of membership with interest at four and one-half per cent per annum, which value shall be estimated.

Such value shall be computed according to the face or nominal sum named in such policies or certificates of membership, whether payment thereof is absolute and provided for by the collection of annual or regularly fixed premiums or whether payment thereof is contingent upon assessments to be levied upon and collected from the members of such corporation or company and when the commissioner is satisfied as aforesaid he shall issue his license and not otherwise.

SECTION 2. This act shall take effect and be in force from and after its passage and publication.

(No. 23.)

A BILL

To amend section 1949 of the statutes of 1898, relating to discontinuance of business by life insurance companies.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. Section 1949 of the statutes of 1898 is amended to read as follows:

Section 1949. ~~Whenever the actual funds of any life insurance corporation doing business in this state are not of a net value equal to the net value of its policies, according to the American Experience table of mortality, with interest at four and one-half per cent per annum. Whenever the assets of any life insurance company shall not equal its liabilities computed as provided by section 1948, the commissioner of insurance shall give notice to such corporation company and its agents to discontinue issuing new policies within this state until such time as its funds assets have become equal to its liabilities valuing its policies computed as aforesaid. Any officer or agent who, after such notice has been given, issues or delivers a new policy for and on behalf of such corporation before its funds shall have been examined by the commissioner and a new certificate of authority issued shall forfeit for each offense not less than one hundred dollars nor more than one thousand dollars, provided that for the purpose of enforcing the provisions of this section the net value of the policies or certificates of membership of any such corporation shall be estimated and determined by the rules and provisions of section 1948.~~

SECTION 2. This act shall take effect and be in force from and after its passage and publication.

(No. 24.)

A BILL

To create section 1953n of the statutes of 1898, requiring life insurance companies to furnish a gain and loss exhibit.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. There is added to the statutes of 1898 a new section to read: Section 1953n. Every life insurance company transacting business in this state shall be required to furnish with their annual statement a gain and loss exhibit as follows:

GAIN AND LOSS EXHIBIT OF THELIFE INSURANCE COMPANY

For the year ending December 31, 190 , showing the sources of the Increase and the Decrease in the Surplus during the year.

INSURANCE EXHIBIT.

RUNNING EXPENSES.

1.	Gross Premiums received during the year.....	\$.....	.....	.....	.....
2.	Deduct Gross Uncollected and Deferred Premiums of the previous year.....	—	.....	.....	.....
3.	Balance .....	.....	.....	.....	.....
4.	Add Gross Uncollected and Deferred Premiums December 31, 190 .....	—	.....	.....	.....
5.	Total .....	.....	.....	.....	.....
6.	Deduct Gross Premiums paid in advance December 31, 190 .....	—	.....	.....	.....
7.	Balance .....	.....	.....	.....	.....
8.	Add Gross Premiums paid in advance December 31 of previous year.....	—	.....	.....	.....
9.	Actual Gross Premiums of the year.....	.....	.....	.....	.....
10.	Deduct Net Premiums on the same.....	—	.....	.....	.....
11.	Loading on Actual Premiums of the year (averaging.....per cent of the gross premiums) .....	\$.....	.....	.....	.....
12.	Insurance Expenses paid during the year.....	.....	.....	.....	.....
13.	Deduct Insurance Expenses unpaid December 31 of previous year.....	—	.....	.....	.....
14.	Balance .....	.....	.....	.....	.....
15.	Add Insurance Expenses unpaid December 31, 190 .....	—	.....	.....	.....
16.	Insurance Expenses incurred during the year .....	.....	.....	.....	.....
17.	".....from loading .....	\$.....	\$.....	.....	.....

* Write "Gain" or "Loss."

† Describe method used.

INTEREST.

18.	Interest, Dividends and Rents received during the year .....	.....	.....	.....
19.	Deduct Interest and Rents due and accrued December 31 of previous year.....	—	.....	.....
20.	Balance .....	.....	.....	.....
21.	Add Interest and Rents due and accrued December 31, 190 .....	—	.....	.....
22.	Total .....	.....	.....	.....
23.	Deduct Interest and Rents paid in advance December 31, 190 .....	—	.....	.....
24.	Balance .....	.....	.....	.....
25.	Add Interest and Rents paid in advance December 31 of previous year.....	—	.....	.....
26.	Interest earned during the year (averaging per cent on Mean Invested Assets, including Bank Balances).....	.....	.....	.....
27.	Investment Expenses paid during the year.....	.....	.....	.....
28.	Deduct Investment Expenses unpaid December 31 of previous year.....	—	.....	.....
29.	Balance .....	.....	.....	.....
30.	Add Investment Expenses unpaid December 31, 190 .....	—	.....	.....
31.	Investment Expenses incurred during the year .....	—	.....	.....
32.	Net Income from Investments.....	—	.....	.....
33.	Interest required to maintain Reserve.....	—	.....	.....
34.	*.....from Interest .....	.....	.....	.....

MORTALITY.

35.	Expected Mortality on net amount at Risk...	.....	.....	.....
36.	Death losses paid during the year.....	.....	.....	.....
37.	Deduct Death Losses unpaid December 31 of previous year, less \$..... saved by compromise .....	—	.....	.....
38.	Balance .....	.....	.....	.....
39.	Add Death Losses unpaid December 31, 190 .....	—	.....	.....
40.	Death Losses incurred during the year including the commuted value of instalment death losses.....	.....	.....	.....
41.	Deduct Terminal Reserves released by death of Insured .....	—	.....	.....
42.	Actual Mortality on net amount of Risk.....	—	.....	.....
43.	*.....from Mortality .....	.....	.....	.....

ANNUITIES.

44.	Expected Disbursements to Annuitants.....	.....	.....	.....
45.	Deduct Reserve expected to be released by death .....	—	.....	.....
46.	Net Expected Disbursements to Annuitants..	.....	.....	.....
47.	Actual Annuity Claims incurred.....	.....	.....	.....
48.	Deduct Reserves released by death of Annuitants .....	—	.....	.....
49.	Net Actual Annuity Claims incurred.....	—	.....	.....
50.	*.....from Annuities .....	.....	.....	.....

SURRENDERS AND LAPSES.

51.	Terminal Reserves on policies surrendered for cash during the year.....	.....	.....	.....
52.	Deduct amount paid on the same.....	—	.....	.....
53.	Gain during the year on said policies surrendered for cash.....	.....	.....	.....
54.	Terminal Reserves on policies on account of which extended insurance was granted during the year .....	.....	.....	.....
55.	Deduct Initial Reserves on said extended insurance .....	—	.....	.....
56.	Gain during the year on extended insurance.....	.....	.....	.....
57.	Terminal Reserves on policies exchanged during the year for paid-up insurance.....	.....	.....	.....
58.	Deduct Initial Reserves on said paid-up insurance .....	—	.....	.....

59.	Gain during the year on said paid-up insurance .....	.....	.....	.....
60.	Gain during the year from reserves released on lapsed policies on which no cash value, paid-up or extended insurance was allowed .....	.....	.....	.....
61.	Total .....	.....	.....	.....
62.	Decrease during the year in unpaid surrender values .....	.....	.....	.....
63.	Total gain during the year from surrendered and lapsed policies.....	.....	.....	.....
64.	Amounts carried forward.....	.....	.....	.....
65.	Amounts brought forward.....	.....	.....	.....

DIVIDENDS.

66.	Dividends paid Stockholders.....	.....	\$.....	\$.....
67.	Dividends paid Policyholders in cash.....	\$.....	.....	.....
68.	Dividends applied to pay Renewal Premiums.....	.....	.....	.....
69.	Dividends applied to purchase Paid-up Additions.....	.....	.....	.....
70.	Dividends left with the Company at Interest and payable on demand.....	.....	.....	.....
71.	Increase in Unpaid, Deferred, and Apportioned Dividends .....	.....	.....	.....
72.	Total .....	\$.....	.....	.....
73.	Deduct Decrease in Unpaid, Deferred and Apportioned dividends .....	.....	.....	.....
74.	Dividends released on Surrendered and Lapsed Policies and by death of Insured. ....	.....	.....	.....
75.	Decrease in Surplus on Dividend Account.....	.....	.....	.....

SPECIAL FUNDS.

76.	Special Funds and Special Reserves December 31, 190 ..	.....	.....	.....
77.	Special Funds and Special Reserves December 31, 190 ..	.....	.....	.....
78.	Decrease in Special Funds and Special Reserves during the year .....	.....	\$.....	.....

PROFIT AND LOSS (EXCLUDING INVESTMENTS).

79.	Carried to Profit Account.....	.....	.....	.....
80.	Carried to Loss Account.....	.....	.....	.....
81.	Net to.....Account .....	.....	.....	.....

INVESTMENT EXHIBIT.

INVESTMENTS SOLD.

82.	Market Value December 31 of previous year of Real Estate sold during the year.....	.....	.....	.....
83.	Received from sale of said Real Estate.....	.....	.....	.....
84.	".....from sale of said Real Estate.....	.....	.....	.....
85.	Market Value December 31 of previous year of other Investments sold during the year.....	.....	.....	.....
86.	Received from sale of said Investments.....	.....	.....	.....
87.	".....from sale of said Investments.....	.....	.....	.....

INVESTMENTS PURCHASED.

88.	Cost of Real Estate acquired during the year and owned December 31, 190 .....	.....	.....	.....
89.	Market Value of same December 31, 190 .....	.....	.....	.....
90.	".....on said Real Estate.....	.....	.....	.....
91.	Cost of Investments, other than Real Estate, acquired during the year and owned December 31, 190 .....	.....	.....	.....
92.	Market Value of same December 31, 190 .....	.....	.....	.....
93.	".....on said Investments.....	.....	.....	.....

INVESTMENTS HELD.

94.	Market Value December 31, 190 , of Real Estate then owned and remaining unsold December 31, 190 .....	.....	.....
95.	Market Value December 31, 190 .....	.....	.....
96.	*.....on said Real Estate during the year..	.....	.....
97.	Market Value December 31, 190 , of other Investments then owned and remaining unsold December 31, 190 ..	.....	.....
98.	Market Value of same December 31, 190 .....	.....	.....
99.	*.....on said Investments during the year..	.....	.....
100.	*.....on sale during the year of Real Estate acquired since December 31, 190 .....	.....	.....
101.	*.....on sale during the year of other Investments acquired since December 31, 190 .....	.....	.....
102.	*.....from all other sources (give items and amounts) .....	.....	.....
103.	.....	.....	.....
104.	.....	.....	.....
105.	*.....unaccounted for .....	.....	.....
106.	Total Gains and Losses in Surplus during the year.	\$.....	\$.....

SURPLUS.

107.	Surplus December 31, 190 .....	.....	.....
108.	Surplus December 31, 190 .....	.....	.....
109.	.....crease in Surplus (enter in column to balance).....	.....	.....
110.	Totals	\$.....	\$.....

INTERROGATORIES REGARDING NEW BUSINESS.

111.	Expected Death Losses during 190 on all policies issued during said year per Mortality tables used by the Company in Computing its premiums	\$.....
112.	Death Losses incurred during 190 on said policies (not deducting reserves)	\$.....
113.	Reserves released during 190 on lapsed policies on which premiums for not more than ONE YEAR had been paid less \$....., being cash value, or the value of Term Extension or Paid up Insurance allowed thereon	\$.....
114.	Loading on First Year's Premiums on Policies issued in 190 , (averaging.....per cent. of the Gross Premiums)	\$.....
115.	Expenses chargeable to First Year's Insurance, viz.:	
116.	Commissions on first year's premiums .....	.....
117.	Compensation not paid by Commission, for services in obtaining new insurance, exclusive of salaries paid in good faith for Agency Supervision either at the Home Office or at Branch offices .....	.....
118.	Medical examinations and inspections of proposed risks .....	.....
119.	Advances to Agents .....	.....
120.	Total expenses chargeable to the procurement of new business	\$.....

GENERAL INTERROGATORIES REGARDING GAIN AND LOSS
EXHIBIT.

121.	Does the company value on the full level premium reserve system, the preliminary term, the modified preliminary term, or the select and ultimate basis? Answer .....	.....
122.	If the company uses more than one of the above methods, give the proportion of the total business under each. ....	.....
123.	If the company uses more than one table of mortality and one rate of interest in valuing its policies, give the amount of reserve held under each different basis. ....	.....

124. Does the company issue, or has it ever issued, both non-participating and participating policies? Answer.....
 125. If so, give the amount of insurance in force under each of these plans.....

 * Write "Gain" or "Loss." † Describe Method Used.

PREMIUM NOTE ACCOUNT.

1.	Premium Notes, Loans or Liens on hand December 31 of previous year	\$.....
2.	Received during the year on new policies, \$..... on old policies, \$.....	..... .....
3.	Restored by revival of policies .....	.....
	Total	\$.....
	Deductions during the year as follows:	
4.	Used in payment of losses and claims	\$.....
5.	Used in purchase of surrendered policies	\$.....
6.	Voided by lapse .....	.....
7.	Used in payment of dividends to policyholders .....	.....
8.	Redeemed by maker in cash .....	.....
9.	Total reduction of Premium Note Account .....	.....
10.	Balance or Note Assets at end of year	\$.....

SECTION 2. This act shall take effect and be in force from and after its passage and publication.

Amendments may be proposed by Senator Roehr to bills No. 4, 7 and 8.

Appendix No 1.

SCHEDULES ILLUSTRATING VARIOUS PLANS.

The schedules herewith presented are intended to show among other things how the expenses are apportioned over the life of the policy under the several plans now used by various companies, and also to indicate the feasibility, under the more general plan proposed by the committee, of still other expense distributions perhaps more nearly in accordance with the actual incidence of the expenses of insurance management. These schedules show that with the same assumed rate of interest the full preliminary term plan, the modified preliminary term plan, the select and ultimate plan, and the other plans illustrated differ from one another and the net level premium reserve plan either in (a) the apportionment and distribution of expenses over the possible history of the policy, or (b) the table of mortality adopted, or (c) both these particulars. For the purpose of comparison of plans, in several of the illustrations of the ordinary whole life policy, the same age and premium, table of mortality, rate of interest, and present value of total expense allowance are used. Each of these plans is scientifically correct, and will mature the policy as shown according to its terms provided the mortality and interest assumptions employed in calculating the premiums are realized.

The expense loading under the net level premium plan with uniform loading is clearly not in accordance with actual conditions and leads inevitably to the employment of the funds of old policy holders to obtain new business. Under the plans which require the new entrant to pay his own way it is furthermore evident that forfeitures and surrender charges are unnecessary and unjusti-

fiable so long as the company is sufficiently large for the law of average to hold and new members, after passing the usual medical examination, can be secured to take the place of those withdrawing.

The schedules are based on an assumed company of 81,822 members at age 35 merely for convenience of illustration and computation; they would apply with equal precision to a company of 5,000 members. The single necessary requirement is that the number of members shall be sufficiently large for the law of average, as indicated in the adopted table of mortality, to apply.

NET LEVEL PREMIUM RESERVE PLAN.

The first schedule shows for ten years the progress of a fund made up of the annual premium payments of 81,822 persons aged 35, each purchasing an ordinary whole life policy of insurance for amount \$1,000. The annual premium, *\$26.15, provides for a uniform annual loading or expense charge, available at the beginning of the policy year, of \$5.07. The present value of all the expense charges provided for in the policy, calculated according to the American Experience table of mortality with 3% interest, is \$100.98, or \$3.99 less than the allowance under the proposed limitations.

The summary, which precedes the schedule, shows that the first premium is apportioned as follows: for expenses of insurance management \$5.07, for mortality charge or expected death claims \$8.51, for deposit to mature the policy according to its terms \$12.51, total \$26.15. It is plain that this apportionment is not at all in accordance with the facts since the average first commission of the agent alone is in excess of 50% of the premium, in this case \$13.98. This, with fee for medical examination and other minor expenses, would easily amount to from \$16 to \$20, which clearly cannot be met by an expense provision of \$5.07. The result is that the surplus fund accumulated by and belonging to old policy holders is drawn upon to meet this deficiency. This indefensible practice is employed by all companies operating on the net level premium reserve plan with uniform loading for expenses.

* The annual premium actually employed in the calculation of the schedule to six places of decimals is \$26.15235, and is based on the American Experience table of mortality with 3 per cent interest.

EXPLANATION OF CONSTRUCTION OF SCHEDULES.

A detailed explanation of the first schedule follows; the other schedules are constructed in precisely the same manner.

The first schedule exhibits the progress of a company of 81,822 persons aged 35, each insured for \$1,000 on the ordinary whole life plan, with annual premium of \$26.15. Column (1) indicates the policy year and column (2) the attained age at the beginning of the corresponding policy year. Column (3) gives the number of survivors of the original group at the beginning of the corresponding policy year. Thus, at the beginning of the 6th policy year, there are 78,106 survivors each aged 40. Column (4) shows the reserve fund of \$5,323,709 brought forward from the end of the preceding or 5th policy year. Column (5) shows the total premium receipts \$2,042,568 at the beginning of the 6th policy year. This is found by multiplying the annual premium \$26.15 (or more exactly, \$26.151236) by the number of survivors 78,106 shown in column (3). Column (6) shows the expense charge or loading \$5.07 on each policy for the year and column (7) shows the total expense provision \$395,997 for the year found by multiplying the number of survivors 78,106 shown in column (3) by the individual expense charge \$5.07 shown in column (6). The fund at the beginning of the policy year less expenses \$6,970,280, shown in column (8), is found by adding columns (4) and (5) and subtracting column (7). This fund in column (8) is assumed to earn a rate of interest 3% per annum, and consequently amounts at the end of the policy year to $\$6,970,280 \times 1.03 = \$7,179,388$, the fund shown in column (9). Column (10) shows the expected death claims during the year according to the table of mortality adopted, in this case, the American Experience, which calls for 765 deaths, or payments for death claims amounting to \$765,000. This payment, in theory, is supposed to be made at the end of the policy year; subtracting it from the fund in column (9) gives \$6,414,388, the fund appearing in column (11). The latter, accordingly, represents the fund at the end of the policy year after the payment of death claims. Column (12) shows the number of survivors 77,341 at the end of the policy year on the assumption that 765 deaths have taken place during the policy year. Column (13) shows the terminal reserve \$82.94 at the end of the policy year; it is found by divid-

ing the total fund \$6,414,388 shown in column (11) by the number of survivors 77,311 shown in column (12). It is evident that this total fund belongs to all the surviving members and so the individual share of each one, known as the reserve on the policy or policy value, is found by a simple division.

The fund in column (11) is brought forward and appears in column (4) corresponding to the 7th policy year and so the process is continued from year to year.

The remaining columns, (14) to (19), are designed to show the method of calculation of the items appearing in the summary. Column (14) is the deposit or discounted terminal reserve, amounting to \$80.52 at the beginning of the sixth policy year; it is found by dividing \$82.94 shown in column (13) by 1.03. It thus appears that the deposit \$80.52 improved at 3% would accumulate to the terminal reserve \$82.94 at the end of the policy year. Column (15) shows the addition to or withdrawal from deposit from year to year. The addition to deposit is equal to the excess of the current premium payment over the sum of the current expense and mortality charges; the withdrawal from deposit is equal to the excess of the sum of the current expense and mortality charges over the current premium payment. Under most all policies and plans of insurance there are at first additions to deposit derived from the premium payments. These additions gradually decrease until a point is reached where the premiums cease or are insufficient to furnish an addition to deposit on account of the increasing amount of the combined expense and mortality charges due to the advancing age of the insured. When the premium becomes insufficient to meet the combined expense and mortality charges of the corresponding policy year the deposit is drawn upon to meet the deficiency, and the amount so drawn is called the withdrawal from deposit.

The amount \$917.06 in column (16), called the amount at risk, is equal to the face of the policy, \$1,000, less the terminal reserve \$82.94 shown in column (13). It represents the actual amount of insurance protection furnished by the company during that particular year. The death rate or probability of dying during the policy year, .009,794, shown in column (17), is taken from the American Experience table of mortality; it is the death rate at the attained age. The product of the items in columns (16)

and (11) gives the cost of insurance \$8.98 for the year, shown in column (18). Column (19) is the mortality charge for the year \$8.72 and is obtained by discounting the corresponding item in column (18) by dividing by \$1.03. It is the sum which provided at the beginning of the policy year improved at interest at 3% would amount to the cost of insurance at the end of the year. The sum of the items in columns (6), (19), and (15) in any year equals the premium payment in such year in case the item in column (15) is an addition to deposit; in case the item in column (15) is a withdrawal from deposit the sum of the items in columns (6) and (19), less the item in column (15), is equal to the premium payment in such year.

The summary, in each case, is a kind of condensed presentation of the results obtained in the corresponding schedule. The table to be printed in the policy as proposed and recommended by the committee is the same as the summary with the omission of the two columns headed "Attained age" and "Addition to (or withdrawal from) deposit at beginning of year;" the table in the policy, however, must cover the entire possible history of the policy.

These schedules are constructed upon the hypothesis that after the first year no new business will be written and that no lapses or withdrawals will occur. Any variation from these assumptions, however, through the writing of new business or the lapsing or withdrawal of old would not affect the principles set forth in the schedules, so long as a sufficient number of members, admitted after careful medical examination, remains in the company to permit the law of average, as expressed in the assumed table of mortality, to apply.

SUMMARY.

Net Level Premium Reserve Plan.

American Experience Table of Mortality. Interest Rate 3 Per Cent.

Ordinary Whole Life Policy. Amount, \$1,000. Age, 35. Annual Premium, \$26.15.

Policy year	Attained age.	Expense charge.	Mortality charge.	Addition to deposit at beginning of year.	Deposit.
1	35	\$5.07	\$8.57	\$12.51	\$12.51
2	36	5.07	8.59	12.49	25.37
3	37	5.07	8.61	12.47	38.60
4	38	5.07	8.64	12.44	52.20
5	39	5.07	8.67	12.41	66.17
6	40	5.07	8.72	12.36	80.52
7	41	5.07	8.76	12.32	95.26
8	42	5.07	8.82	12.26	110.37
9	43	5.07	8.89	12.19	125.87
10	44	5.07	8.98	12.10	141.75
etc.	etc.	etc.	etc.	etc.	etc.

(1) Policy Year.	(2) Attained age.	(3) Number of members at beginning of year.	(4) Reserve fund of preceding year brought forward.	(5) Premium receipts at beginning of year. ¹	(6) Expense charge on each policy.
1	35	\$1,222	\$0,000,000	\$2,139,746	\$5.07
2	36	\$1,090	\$1,044,656	2,120,604	5.07
3	37	\$9,353	2,009,758	2,101,330	5.07
4	38	79,641	3,165,509	2,081,926	5.07
5	39	78,862	4,240,122	2,062,339	5.07
6	40	78,106	5,323,709	2,042,568	5.07
7	41	77,341	6,414,388	2,022,563	5.07
8	42	76,567	7,512,177	2,002,322	5.07
9	43	75,782	8,615,093	1,981,793	5.07
10	44	74,985	9,722,052	1,960,951	5.07
etc.	etc.	etc.	etc.	etc.	etc.

$$^1=(3)+\$26.151236$$

Policy Year.	Attained age.	(7) Expense provision for the year. ¹	(8) Fund at beginning of year less expenses. ²	(9) Fund in (8) improved at 3 per cent interest. ³	(10) Expected death claims during year.
1	35	\$414,838	\$1,724,908	\$1,776,656	\$732,000
2	36	411,126	2,754,134	2,836,758	737,000
3	37	407,389	3,793,689	3,907,509	742,000
4	38	403,627	4,843,808	4,989,122	749,000
5	39	399,830	5,902,631	6,079,709	756,000
6	40	395,997	6,970,380	7,179,388	765,000
7	41	392,119	8,044,832	8,286,177	774,000
8	42	388,195	9,126,304	9,400,093	785,000
9	43	384,215	10,212,671	10,519,032	797,000
10	44	380,174	11,302,829	11,641,913	812,000
etc.	etc.	etc.	etc.	etc.	etc.

$$^3=(3) \times (6)$$

$$^2=(4)+(5)-(7)$$

$$^3=(8) \times 1.03$$

Policy Year.	Attained age.	(11) Fund at end of year after payment of death claims. ¹	(12) Number of survivors at end of year.	(13) Terminal reserve on policy of each survivor. ²	(14) Deposit or discounted terminal reserve. ³	(15) Addition to deposit at beginning of year.
1	35	\$1,041,650	81,090	\$12.88	\$12.51	\$12.51
2	36	2,099,758	80,353	26.13	25.37	12.48
3	37	3,165,509	79,611	39.76	38.60	12.47
4	38	4,240,122	78,862	53.77	52.20	12.44
5	39	5,323,709	78,106	68.16	66.17	12.41
6	40	6,414,388	77,341	82.94	80.52	12.36
7	41	7,512,177	76,567	98.11	95.26	12.32
8	42	8,615,093	75,782	113.68	110.37	12.26
9	43	9,722,052	74,985	129.65	125.87	12.19
10	44	10,829,913	74,173	146.01	141.75	12.10
etc.	etc.	etc.	etc.	etc.	etc.	etc.

¹=(9)-(10) ²=(11)÷(12) ³=(13)÷1.03

Policy Year.	Attained age.	(16) Amount at risk during year. ¹	(17) Death rate or probability of dying during year.	(18) Cost of insurance. ²	(19) Charge for death claims at beginning of year. ³
1	35	\$987.12	.008,946	\$8.83	\$8.57
2	36	973.87	.009,089	8.85	8.59
3	37	960.24	.009,234	8.87	8.61
4	38	946.23	.009,408	8.90	8.64
5	39	931.84	.009,586	8.93	8.67
6	40	917.06	.009,794	8.98	8.72
7	41	901.89	.010,008	9.03	8.76
8	42	886.32	.010,252	9.09	8.82
9	43	870.35	.010,517	9.15	8.89
10	44	853.99	.010,829	9.25	8.93
etc.	etc.	etc.	etc.	etc.	etc.

¹=\$1,000-(13) ²=(16) x (17) ³=(18)÷1.03

FULL PRELIMINARY TERM POLICY.

The following schedule shows for ten years the progress of a fund made up of the annual premium payments of \$1,822 persons aged 35, each purchasing an ordinary whole life policy of insurance for amount \$1,000. The annual premium, *\$26.15, provides for an expense charge available at the beginning of the policy year as follows: first year, \$17.46; every year thereafter, \$4.41. The present value of all the expense charges provided for in the policy, calculated according to the American Experience table of mortality with 3% interest, is \$100.89, or \$4.08 less than the allowance under the proposed limitation.

The summary, which precedes the schedule, shows that there is no reserve at the end of the first year, while the reserves thereafter are the same as on an ordinary whole life policy with net level annual premium of \$21.74 issued at age 36. It also shows that no part of the first premium is apportioned as an addition to the deposit and that decreasing amounts of the second and subsequent premiums are added to the deposit at the beginning of the year until the expense and mortality charges are in excess of the premium when the deposit is drawn upon to provide for such part of the combined expense and mortality charge as is not met by the premium.

* The annual premium actually employed in the calculation of the schedule to seven places of decimals is \$26.1461834, and is based on the American Experience table of mortality with 3 per cent interest.

SUMMARY.

Full Preliminary Term Policy.

American Experience Table of Mortality. Interest Rate, 3 Per Cent.

Ordinary Whole Life Policy. Amount, \$1,000. Age, 35. Annual Premium, \$26.15.

Policy Year.	Attained Age.	Expense Charge.	Mortality Charge.	Addition to deposit at beginning of year.	Deposit.
1	35	\$17.46	\$8.69	\$0.00	\$0.00
2	36	4.41	8.71	\$13.03	\$13.03
3	37	4.41	8.72	13.02	26.44
4	38	4.41	8.76	12.98	40.21
5	39	4.41	8.79	12.95	54.37
6	40	4.41	8.84	12.90	68.90
7	41	4.41	8.88	12.86	83.83
8	42	4.41	8.94	12.80	99.14
9	43	4.41	9.01	12.73	114.85
10	44	4.41	9.10	12.64	130.93
etc.	etc.	etc.	etc.	etc.	etc.

FULL PRELIMINARY TERM POLICY.

(1) Policy year.	(2) Attained age.	(3) Number of members at beginning of year.	(4) Reserve fund of pre- ceding year brought forward	(5) Premium receipts at beginning of year. ¹	(6) Expense charged on each policy.
1	35	81,822	\$0,000,000	\$2,139,358	\$17.46
2	36	81,060	0,000,000	2,120,218	4.41
3	37	80,353	1,078,430	2,100,687	4.41
4	38	79,611	2,167,834	2,081,548	4.41
5	39	78,862	3,263,246	2,061,964	4.41
6	40	78,106	4,373,841	2,042,197	4.41
7	41	77,341	5,488,739	2,022,195	4.41
8	42	76,567	6,610,956	2,001,978	4.41
9	43	75,782	7,738,511	1,981,433	4.41
10	44	74,985	8,870,318	1,960,594	4.41
etc.	etc.	etc.	etc.	etc.	etc.

$$^1=(3)\times \$26.1464834$$

Policy year.	Attained age.	(7) Expense provision for the year. ¹	(8) Fund at beginning of year less expenses. ²	(9) Fund in (8) improved at 3 per cent interest. ³	(10) Expected death claims during year.
1	35	\$1,428,678	\$710,680	\$732,000	\$732,000
2	36	357,607	1,762,611	1,815,490	737,000
3	37	354,357	2,815,080	2,909,834	742,000
4	38	351,085	3,898,297	4,015,246	749,000
5	39	347,781	4,980,429	5,129,841	756,000
6	40	344,447	6,071,591	6,253,739	765,000
7	41	341,074	7,163,869	7,384,976	774,000
8	42	337,660	8,275,254	8,533,511	785,000
9	43	334,199	9,385,745	9,697,318	797,000
10	44	330,684	10,500,228	10,815,235	812,000
etc.	etc.	etc.	etc.	etc.	etc.

$$^1=(3)\times(6)$$

$$^2=(4)+(5)-(7)$$

$$^3=(8)\times 1.03$$

FULL PRELIMINARY TERM POLICY.

Policy year.	Attained age.	(11) Fund at end of year after payment of death claims. ¹	(12) Number of survivors at end of year.	(13) Terminal reserve on policy of each survivor. ²	(14) Deposit or discounted terminal reserve. ³	(15) Addition to deposit at beginning of year.
1	35	.....	81,000	.....	.....	.....
2	36	\$1,058,400	80,353	\$13.42	\$13.01	\$13.03
3	37	2,167,834	79,611	27.23	23.44	13.02
4	38	3,764,246	78,862	41.42	40.21	12.98
5	39	4,373,841	78,106	56.09	54.37	12.95
6	40	5,488,739	77,341	70.97	68.90	12.90
7	41	6,610,956	76,567	86.34	83.83	12.86
8	42	7,738,511	75,782	102.12	99.14	12.80
9	43	8,870,318	74,985	118.29	114.85	12.73
10	44	10,003,235	74,173	134.86	130.93	12.64
etc.	etc.	etc.	etc.	etc.	etc.	etc.

¹=(9)-(10)

²=(11)÷(12)

³=(12)÷1.03

Policy year.	Attained age.	(16) Amount at risk during the year. ¹	(17) Death rate or probability of dying during the year.	(18) Cost of insurance. ²	(19) Charge for death claims at beginning of year. ³
1	35	\$1,000.00	.008,946	\$8.95	\$8.60
2	36	986.58	.009,089	8.97	8.71
3	37	972.77	.009,234	8.98	8.72
4	38	958.58	.009,408	9.02	8.76
5	39	944.00	.009,586	9.05	8.79
6	40	929.03	.009,794	9.10	8.84
7	41	913.66	.010,008	9.14	8.88
8	42	897.88	.010,252	9.21	8.94
9	43	881.71	.010,517	9.27	9.01
10	44	865.14	.010,829	9.37	9.10
etc.	etc.	etc.	etc.	etc.	etc.

¹=\$1,000-(13)

²=(16)×(17)

³=(18)÷1.03

AN ORDINARY LIFE POLICY WITHIN PROPOSED PLAN.

The next schedule shows for the entire possible history of the policy, 61 years, the progress of a fund made up of the annual premium payments of 81,822 persons aged 35, each purchasing an ordinary whole life policy of insurance for amount \$1,000. The annual premium, *\$26.15, provides for a loading or expense charge, available at the beginning of the policy year, as follows: 1st year, \$14.50; 2nd year, \$8.50; 3d year, \$6.50; 4th year, \$8.50; 5, 6, 7, 8, 9, 10th years, each \$6.50; every year thereafter, \$3.00. The present value of all the expense charges provided for in the policy, calculated according to the American Experience table of mortality with 3% interest, is \$100.98, or \$3.99 less than the allowance under the proposed limitation as to expenses of insurance management.

The summary, which precedes the schedule, shows that the first premium is apportioned as follows: for expenses of insurance management, \$14.50, for mortality charge or expected death claims \$8.66; for deposit to mature the policy according to its terms, \$2.99; total, \$26.15. Up to age 71 the deposit is annually increased by additions from the premium payments, thereafter, when the combined expense and mortality charges are in excess of the annual premium, the deposit is drawn upon to provide such part of the combined expense and mortality charges as is not met by the premium.

It appears from the summary and schedule that the amount at risk or insurance protection beyond age 70 is comparatively small and that the cost of such protection is very high.

* The annual premium actually employed in the calculation of the schedule to eight places of decimals is \$26.15276423, and is based on the American Experience table of mortality with 3 per cent interest.

SUMMARY OF THIRD SCHEDULE.

American Experience Table of Mortality. Interest Rate 3 Per Cent. Ordinary Life Policy. Amount \$1,000. Age 35. Annual Premium \$26.15.

Policy Year.	Attained age.	Expense charge.	Mortality Charge.	Addition to	Withdrawal from	Deposit.
				deposit at beginning of year.		
1	35	\$14.50	\$8.66	\$2.99		\$2.99
2	36	8.50	8.71	8.94		12.02
3	37	6.50	8.75	10.90		23.22
4	38	8.50	8.82	8.83		32.81
5	39	6.50	8.88	10.77		41.56
6	40	6.50	8.95	10.70		51.60
7	41	6.50	9.02	10.63		68.93
8	42	6.50	9.12	10.53		81.53
9	43	6.50	9.22	10.43		91.41
10	44	6.50	9.35	10.30		107.54
11	45	3.00	9.45	13.70		124.18
12	46	3.00	9.58	13.57		141.78
13	47	3.00	9.73	13.42		159.45
14	48	3.00	9.92	13.23		177.46
15	49	3.00	10.16	12.99		195.78
16	50	3.00	10.42	12.73		214.38
17	51	3.00	10.73	12.42		233.23
18	52	3.00	11.06	12.09		252.33
19	53	3.00	11.42	11.73		271.63
20	54	3.00	11.82	11.33		291.11
21	55	3.00	12.26	10.89		310.69
22	56	3.00	12.73	10.42		330.18
23	57	3.00	13.24	9.91		350.39
24	58	3.00	13.78	9.37		370.18
25	59	3.00	14.36	8.79		390.09
26	60	3.00	14.97	8.18		409.97
27	61	3.00	15.62	7.53		429.89
28	62	3.00	16.32	6.83		449.52
29	63	3.00	17.03	6.12		469.14
30	64	3.00	17.78	5.37		488.58
31	65	3.00	18.58	4.57		507.81
32	66	3.00	19.41	3.74		526.79
33	67	3.00	20.27	2.88		545.18
34	68	3.00	21.17	1.98		563.82
35	69	3.00	22.08	1.07		581.81
36	70	\$3.00	\$23.03	\$0.12		\$599.38
37	71	3.00	24.98		\$0.83	616.53
38	72	3.00	21.89		1.71	631.30
39	73	3.00	25.75		2.60	649.70
40	74	3.00	26.55		3.40	665.79
41	75	3.00	27.29		4.14	681.62
42	76	3.00	28.09		4.85	697.22
43	77	3.00	28.68		5.53	712.61
44	78	3.00	29.37		6.22	727.77
45	79	3.00	30.06		6.91	742.69
46	80	3.00	30.86		7.51	757.23
47	81	3.00	31.62		8.17	771.52
48	82	3.00	32.31		9.16	785.51
49	83	3.00	32.85		9.70	799.37
50	84	3.00	33.33		10.18	813.18
51	85	3.00	33.91		10.79	826.79
52	86	3.00	34.78		11.63	839.93
53	87	3.00	35.89		12.74	852.42
54	88	3.00	37.00		13.85	864.14
55	89	3.00	37.78		14.63	875.43
56	90	3.00	38.35		15.20	886.50
57	91	3.00	39.11		16.23	896.89
58	92	3.00	41.65		18.50	907.20
59	93	3.00	42.43		19.28	913.08
60	94	3.00	43.30		20.35	920.12
61	95	3.00	0.00	23.15	0.00	970.87

THIRD SCHEDULE.
Exact value of annual premium, \$26.15276423.

(1) Policy year.	(2) Attained age.	(3) Number of members at beginning of year.	(4) Reserve fund of preced- ing year brought forward.	(5) Premium receipts at beginning of year. ¹	(6) Expense charge on each policy.	(7) Expense provision for the year. ²
1	35	81,822	\$800,000	\$2,139,871	\$14.50	\$1,186,419
2	36	81,000	\$250,056	2,120,728	8.50	699,265
3	37	80,353	494,964	2,101,433	6.50	522,294
4	38	79,611	1,969,346	2,082,048	8.50	616,693
5	39	78,862	2,665,142	2,062,459	6.50	512,663
6	40	78,106	3,585,448	2,042,688	6.50	507,689
7	41	77,341	4,509,060	2,022,681	6.50	502,717
8	42	76,567	5,435,895	2,002,439	6.50	497,686
9	43	75,782	6,363,868	1,981,909	6.50	492,583
10	44	74,985	7,291,790	1,961,065	6.50	487,403
11	45	74,173	8,216,416	1,939,829	3.00	222,519
12	46	73,345	9,143,737	1,918,174	3.00	220,035
13	47	72,467	10,068,933	1,895,997	3.00	217,491
14	48	71,627	11,063,402	1,873,244	3.00	214,881
15	49	70,731	12,028,418	1,849,811	3.00	212,193
16	50	69,804	14,076,018	1,825,568	3.00	209,412
17	51	68,842	15,200,938	1,800,409	3.00	206,536
18	52	67,841	16,297,666	1,774,230	3.00	203,523
19	53	66,797	17,369,423	1,746,926	3.00	200,391
20	54	65,706	18,383,167	1,718,394	3.00	197,118
21	55	64,563	19,358,576	1,688,501	3.00	193,689
22	56	63,364	20,279,990	1,657,144	3.00	190,092
23	57	62,104	21,139,453	1,624,191	3.00	186,312
24	58	60,779	21,929,652	1,589,539	3.00	182,337
25	59	59,835	22,642,060	1,553,082	3.00	178,155
26	60	57,917	23,270,423	1,514,690	3.00	173,751
27	61	56,371	23,804,702	1,474,251	3.00	169,113
28	62	54,743	24,234,112	1,431,681	3.00	164,229
29	63	53,030	24,553,611	1,386,881	3.00	159,090
30	64	51,239	24,754,844	1,339,806	3.00	153,646
31	65	49,341	24,830,139	1,290,404	3.00	148,023
32	66	47,361	24,771,747	1,238,621	3.00	140,083
33	67	45,291	24,574,333	1,184,485	3.00	135,873
34	68	43,133	24,233,634	1,128,047	3.00	129,599
35	69	40,890	23,746,250	1,069,387	3.00	122,670
36	70	38,539	23,112,756	1,008,686	3.00	115,707
37	71	36,178	22,334,007	946,155	3.00	108,534
38	72	33,730	21,419,793	882,133	3.00	101,190
39	73	31,243	20,379,655	817,091	3.00	93,729
40	74	28,758	19,231,118	751,578	3.00	86,214
41	75	26,237	17,992,377	686,170	3.00	78,711
42	76	23,761	16,681,831	621,416	3.00	71,283
43	77	21,330	15,317,422	557,838	3.00	63,990
44	78	18,961	13,917,124	495,883	3.00	56,883
45	79	16,670	12,495,807	435,967	3.00	50,010
46	80	14,474	11,072,217	378,535	3.00	43,422
47	81	12,383	9,658,550	323,850	3.00	37,149
48	82	10,419	8,279,680	272,486	3.00	31,257
49	83	8,603	6,960,462	224,602	3.00	25,800
50	84	6,955	5,726,434	181,892	3.00	20,835
51	85	5,485	4,594,096	143,448	3.00	16,455
52	86	4,193	3,570,711	109,659	3.00	12,579
53	87	3,079	2,651,824	80,521	3.00	9,237
54	88	2,146	1,884,165	56,124	3.00	6,438
55	89	1,402	1,247,886	36,666	3.00	4,206
56	90	847	764,736	22,151	3.00	2,511
57	91	462	421,847	12,803	3.00	1,386
58	92	216	199,529	5,649	3.00	645
59	93	79	73,656	2,066	3.00	237
60	94	21	19,759	549	3.00	63
61	95	3	2,813	78	3.00	9

¹=(3)\$26.15 x 276423²=(3) x (6)¹=(3) x \$26.15276423²=(3) x (6)

THIRD SCHEDULE (continued).

Policy year	Attained age.	(8) Fund at be- ginning of year less expenses. ¹	(9) Fund in (8) at 3 per cent interest. ²	(10) Expected death claims dur- ing year.	(11) Fund at end of year after pay- ment of death claims. ³
1	35	\$953,452	\$982,056	\$732,000	\$250,056
2	36	1,681,519	1,731,964	737,000	994,964
3	37	2,574,123	2,651,346	742,000	1,909,346
4	38	3,314,701	3,414,142	749,000	2,665,142
5	39	4,214,908	4,341,448	756,000	3,585,448
6	40	5,130,447	5,274,000	765,000	4,509,000
7	41	6,029,025	6,209,895	774,000	5,435,895
8	42	6,940,649	7,118,868	785,000	6,363,868
9	43	7,853,194	8,088,790	797,000	7,291,790
10	44	8,765,452	9,028,416	812,000	8,216,416
11	45	9,933,726	10,231,737	828,000	9,403,737
12	46	11,101,877	11,434,933	848,000	10,586,933
13	47	12,265,439	12,633,402	870,000	11,763,402
14	48	13,421,765	13,824,418	896,000	12,928,418
15	49	14,566,037	15,003,018	927,000	14,076,018
16	50	15,692,173	16,162,958	962,000	15,209,958
17	51	16,794,821	17,298,066	1,001,000	16,297,066
18	52	17,868,372	18,404,423	1,044,000	17,369,423
19	53	18,900,959	19,474,167	1,091,000	18,383,167
20	54	19,904,443	20,511,576	1,143,000	19,378,576
21	55	20,853,388	21,478,990	1,199,000	20,279,990
22	56	21,747,642	22,399,453	1,260,000	21,120,453
23	57	22,577,332	23,254,652	1,325,000	21,929,652
24	58	23,336,854	24,036,960	1,394,000	22,642,960
25	59	24,017,886	24,739,423	1,468,000	23,270,423
26	60	24,611,362	25,349,702	1,546,000	23,803,702
27	61	25,108,847	25,862,112	1,628,000	24,234,112
28	62	25,501,564	26,296,611	1,713,000	24,533,611
29	63	25,781,492	26,554,844	1,803,000	24,754,844
30	64	25,940,960	26,719,189	1,889,000	24,869,189
31	65	25,973,570	26,751,717	1,989,000	24,771,717
32	66	25,870,385	26,646,393	2,070,000	24,574,393
33	67	25,632,745	26,391,428	2,158,000	24,233,634
34	68	25,293,282	25,980,270	2,243,000	23,746,270
35	69	24,692,967	25,433,756	2,324,000	23,112,756
36	70	24,005,735	24,725,997	2,391,000	22,334,997
37	71	23,172,527	23,897,703	2,448,000	21,419,703
38	72	22,203,646	22,866,665	2,487,000	20,379,665
39	73	21,103,027	21,736,118	2,505,000	19,231,118
40	74	19,896,482	20,493,377	2,501,000	17,992,377
41	75	\$18,599,836	\$19,157,831	\$2,476,000	\$16,681,831
42	76	17,231,964	17,748,922	2,431,000	15,317,922
43	77	15,811,771	16,246,124	2,369,000	13,917,124
44	78	14,356,124	14,746,807	2,291,000	12,495,807
45	79	12,881,764	13,268,217	2,196,000	11,072,217
46	80	11,407,330	11,749,359	2,081,000	9,658,359
47	81	9,945,251	10,243,608	1,964,000	8,279,608
48	82	8,520,837	8,776,162	1,846,000	6,930,162
49	83	7,159,645	7,374,424	1,698,000	5,726,424
50	84	5,887,662	6,064,083	1,470,000	4,564,083
51	85	4,721,079	4,832,711	1,292,000	3,570,711
52	86	3,667,794	3,777,824	1,114,000	2,663,824
53	87	2,735,112	2,847,165	933,000	1,884,165
54	88	1,934,851	1,991,863	744,000	1,247,863
55	89	1,280,317	1,318,736	555,000	763,736
56	90	784,317	806,847	385,000	421,847
57	91	432,744	445,540	246,000	199,540
58	92	204,521	210,657	137,000	73,656
59	93	75,186	77,750	58,000	19,750
60	94	20,236	20,844	18,000	2,843
61	95	2,913	3,000	3,000	0,000

¹=(4)+(5)-(7)

²=(8) x 1.03

³=(9)-(10)

¹=(4)+(5)-(7)

²=(8) x 1.03

³=(9)-(10)

THIRD SCHEDULE (continued).

Policy year.	Attained age.	12) Number of survivors at end of year.	(13) Terminal reserve on policy of each survivor. ¹	(14) Deposit or discounted terminal reserve. ²
1	35	81,000	\$3.08	\$2.99
2	36	80,373	12.38	12.02
3	37	79,611	23.98	23.28
4	38	78,892	33.80	32.81
5	39	78,106	45.50	44.56
6	40	77,241	58.30	56.60
7	41	76,767	71.00	68.93
8	42	75,782	85.98	81.53
9	43	74,985	97.24	94.41
10	44	74,173	110.77	107.54
11	45	73,345	128.21	124.48
12	46	72,497	146.03	141.78
13	47	71,627	164.23	159.45
14	48	70,731	182.78	177.46
15	49	69,894	201.65	195.78
16	50	68,842	220.81	214.33
17	51	67,841	240.23	233.23
18	52	66,797	259.90	252.33
19	53	65,796	279.78	271.63
20	54	64,733	299.84	291.11
21	55	63,364	320.06	310.69
22	56	62,104	340.39	330.48
23	57	60,779	360.81	350.30
24	58	59,385	381.29	370.18
25	59	57,917	401.79	390.00
26	60	56,371	422.27	409.97
27	61	54,743	442.69	429.80
28	62	53,070	463.01	449.52
29	63	51,230	483.21	469.14
30	64	49,341	503.24	488.58
31	65	47,361	523.04	507.81
32	66	45,291	542.59	526.79
33	67	43,133	561.84	545.48
34	68	40,800	580.73	563.82
35	69	38,569	599.26	581.81
36	70	36,178	617.26	599.38
37	71	33,730	635.03	616.53
38	72	31,243	652.30	633.30
39	73	28,738	669.19	649.70
40	74	26,237	685.76	665.79
41	75	23,761	702.07	681.62
42	76	21,330	718.14	697.22
43	77	18,961	733.99	712.61
44	78	16,670	749.60	727.77
45	79	14,474	764.97	742.69
46	80	12,383	779.98	757.26
47	81	10,419	794.65	771.52
48	82	8,603	809.07	785.51
49	83	6,955	823.35	799.37
50	84	5,485	837.57	813.18
51	85	4,193	851.59	826.79
52	86	3,070	865.16	839.96
53	87	2,146	877.99	852.42
54	88	1,402	890.66	864.14
55	89	847	903.70	875.43
56	90	462	915.69	886.50
57	91	216	928.70	896.80
58	92	79	932.36	905.20
59	93	21	940.47	913.68
60	94	3	947.72	920.12
61	95	0	1,000.00	970.87

(1) ÷ (12)

² (12 ÷ 1.03)¹ = (11) ÷ (12)² (12) ÷ 1.03

Policy year.	Attained age.	(15)		(16)	(17)	(18)	(19)
		Addition to	Withdrawal from	Amount at risk during year. ¹	Death rate or probability of dying during year.	Cost of insurance. ²	Charge for death claims at beginning of year. ³
		Deposit at beginning of year.					
1	35	\$2.99	.....	\$996.92	.008,946	\$8.92	\$8.66
2	36	8.94	.....	987.62	.009,089	8.98	8.71
3	37	10.90	.....	976.02	.009,234	9.01	8.75
4	38	8.83	.....	966.20	.009,408	9.09	8.82
5	39	10.77	.....	954.10	.009,186	9.15	8.88
6	40	10.10	.....	941.70	.009,794	9.22	8.95
7	41	10.63	.....	927.00	.010,008	9.10	9.02
8	42	10.53	.....	916.02	.010,252	9.39	9.12
9	43	10.43	.....	902.76	.010,517	49	9.22
10	44	10.30	.....	889.23	.010,829	5.63	9.35
11	45	13.70	.....	871.79	.011,163	9.73	9.45
12	46	13.57	.....	853.97	.011,562	9.87	9.58
13	47	13.12	.....	835.77	.012,000	10.03	9.73
14	48	13.23	.....	817.22	.012,509	10.22	9.92
15	49	12.49	.....	798.35	.013,106	10.46	10.16
16	50	12.73	.....	779.19	.013,781	10.74	10.42
17	51	12.12	.....	759.77	.014,511	11.05	10.73
18	52	12.09	.....	740.10	.015,389	11.39	11.06
19	53	11.73	.....	720.22	.016,333	11.76	11.42
20	54	11.33	.....	700.16	.017,395	12.18	11.82
21	55	10.89	.....	679.94	.018,571	12.63	12.26
22	56	10.42	.....	659.61	.019,885	13.12	12.73
23	57	9.91	.....	639.10	.021,335	13.61	13.24
24	58	9.37	.....	618.71	.022,936	14.19	13.78
25	59	8.79	.....	598.21	.024,720	14.79	14.36
26	60	8.18	.....	577.73	.026,693	15.42	14.97
27	61	7.54	.....	557.31	.028,880	16.10	15.62
28	62	6.83	.....	536.99	.031,292	16.80	16.32
29	63	6.12	.....	516.79	.033,943	17.54	17.03
30	64	5.37	.....	496.76	.036,873	18.32	17.78
31	65	4.57	.....	476.96	.040,129	19.14	18.58
32	66	3.74	.....	457.41	.043,707	19.99	19.41
33	67	2.88	.....	438.16	.047,617	20.88	20.27
34	68	1.98	.....	419.27	.052,002	21.80	21.17
35	69	1.07	.....	400.74	.056,762	22.75	22.08
36	70	0.12	.....	382.61	.061,993	23.72	23.03
37	71	.....	0.83	364.97	.067,665	24.70	23.98
38	72	.....	1.74	347.70	.073,733	25.64	24.89
39	73	.....	2.60	330.81	.080,178	26.52	25.75
40	74	.....	3.40	314.24	.087,028	27.35	26.55
41	75	.....	4.14	297.93	.094,371	28.12	27.29
42	76	.....	4.85	281.86	.102,311	28.84	28.00
43	77	.....	5.53	266.01	.111,061	29.51	28.68
44	78	.....	6.22	250.40	.120,827	30.26	29.37
45	79	.....	6.91	235.03	.131,734	30.96	30.06
46	80	.....	7.71	220.02	.144,166	31.79	30.86
47	81	.....	8.47	205.34	.158,105	32.57	31.62
48	82	.....	9.16	190.93	.174,297	33.28	32.31
49	83	.....	9.70	176.65	.191,561	33.81	32.85
50	84	.....	10.18	162.43	.211,359	34.33	33.33
51	85	.....	10.79	148.41	.235,550	34.96	33.91
52	86	.....	11.63	134.84	.265,681	35.82	34.78
53	87	.....	12.71	122.01	.303,020	36.97	35.89
54	88	.....	13.85	109.91	.346,692	38.12	37.00
55	89	.....	14.63	99.30	.395,863	38.92	37.78
56	90	.....	15.20	89.91	.451,545	39.51	38.35
57	91	.....	16.29	76.30	.512,468	40.63	39.44
58	93	.....	18.50	67.64	.631,259	42.90	41.65
59	93	.....	19.28	59.53	.751,177	43.71	42.43
60	94	.....	20.35	52.28	.875,143	44.81	43.50
61	95	23.15	03.00	00.00	1,000,000	00.00	00.00

¹=§1000—(13)²=(16) x (17)³=(18)÷1.03

FIRST PREMIUM \$10 HIGHER THAN SUBSEQUENT PREMIUMS.

The following schedule shows for ten years the progress of a fund made up of the annual premium payments of 81,822 persons aged 35, each purchasing an ordinary whole life policy of insurance for amount, \$1,000. The first annual premium is *\$35.65, the subsequent annual premiums are *\$25.65. They provide for an expense charge, available at the beginning of the policy year, as follows: first year, \$14.57; every year thereafter, \$4.57. The present value of all the expense charges provided for in the policy, calculated according to the American Experience table of mortality with 3% interest, is \$101.02, or \$3.95 less than the allowance under the proposed limitation as to expense of insurance management.

The summary, which precedes the schedule, shows that this plan differs from the net level premium with uniform loading plan merely in an additional collection of ten dollars in the first premium to meet the initial expenses of insurance management. The mortality charge and deposit columns are the same in the two plans.

* The actual premiums employed in the calculation of the schedule to six places of decimals are; first premium \$35.651236, subsequent premiums \$25.651236. They are based on the American Experience table of mortality with 3 per cent interest.

SUMMARY OF FOURTH SCHEDULE.

First Premium Higher than Subsequent Premiums.

American Experience Table of Mortality. Interest Rate 3 Per Cent.

Ordinary Whole Life Policy. Amount, \$1,000. Age, 35. Annual Premiums, first \$35.65, subsequent, \$25.65.

Policy year.	Attained age.	Annual premium.	Expense charge.	Mortality charge.	Addition to deposit at beginning of year.	Deposit.
1	35	\$35.65	\$14.57	\$8.57	\$12.51	\$12.51
2	36	25.65	4.57	8.59	12.49	25.37
3	37	25.65	4.57	8.61	12.47	38.60
4	38	25.65	4.57	8.64	12.44	52.20
5	39	25.65	4.57	8.67	12.41	66.17
6	40	25.65	4.57	8.72	12.36	80.52
7	41	25.65	4.57	8.76	12.32	95.26
8	42	25.65	4.57	8.82	12.26	110.37
9	43	25.65	4.57	8.89	12.19	125.87
10	44	25.65	4.57	8.98	12.10	141.75
	etc.	etc.	etc.	etc.	etc.	etc.

FOURTH SCHEDULE.

First Premium Higher Than Subsequent Premiums.

(1) Policy year	(2) Attained age	(3) Number of members at beginning of year.	(4) Reserve fund of preceding year brought forward.	(4a) *Annual premium.	(5) Premium receipts at beginning of year. ¹	(6) Expense charge on each policy.
1	35	\$1,822	\$0,000,000	\$35.65	2,917,055	\$14.57
2	36	81,099	\$1,041,656	25.65	2,080,059	4.57
3	37	80,333	2,009,758	25.65	2,061,154	4.57
4	38	79,611	3,165,509	25.65	2,042,121	4.57
5	39	78,862	4,240,122	25.65	2,022,908	4.57
6	40	78,106	5,323,709	25.65	2,003,515	4.57
7	41	77,341	6,414,388	25.65	1,983,802	4.57
8	42	76,567	7,512,177	25.65	1,964,038	4.57
9	43	75,782	8,615,093	25.65	1,943,901	4.57
10	44	74,985	9,722,052	25.65	1,923,458	4.57
	etc.	etc.	etc.	etc.	etc.	etc.

$$^1=(3)\times(4a)$$

* First premium, \$35.651236, subsequent premiums, \$25.651236.

Policy year.	Attained age.	(7) Expense provision for the year. ²	(8) Fund at beginning of year less expenses. ³	(9) Fund in (8) improved at 3 per cent interest. ⁴	(10) Expected death claims during year.
1	35	\$1,192,147	\$1,724,908	\$1,776,656	732,000
2	36	370,581	2,754,134	2,836,758	737,000
3	37	367,213	3,793,609	3,907,509	742,000
4	38	363,822	4,843,808	4,989,132	749,000
5	39	360,330	5,902,631	6,079,709	756,000
6	40	356,944	6,970,280	7,179,388	765,000
7	41	353,448	8,041,832	8,286,177	774,000
8	42	349,941	9,126,304	9,400,093	785,000
9	43	346,324	10,212,671	10,519,052	797,000
10	44	342,681	11,302,829	11,641,913	812,000
	etc.	etc.	etc.	etc.	etc.

$$^2=(3)\times(6)$$

$$^3=(4)\times(5)-(7)$$

$$^4=(8)+1.03$$

FOURTH SCHEDULE (continued).

First Premium Higher than Subsequent Premiums.

Policy year.	Attained age.	(11) Fund at end of year after payment of death claims. ⁵	(12) Number of survivors at end of year.	(13) Terminal reserve on policy of each survivor. ⁶	(14) Deposit, or discounted terminal reserve. ⁷	(15) Addition to deposit at beginning of year.
1	35	\$1,044,656	81,000	\$12.88	\$12.51	\$12.51
2	36	2,099,758	80,353	26.13	25.37	12.49
3	37	3,165,509	79,611	39.76	38.60	12.47
4	38	4,240,122	78,802	53.77	52.20	12.44
5	39	5,323,709	78,106	68.16	63.17	12.41
6	40	6,414,388	77,341	82.94	80.52	12.36
7	41	7,512,177	76,567	98.11	95.26	12.32
8	42	8,615,093	75,782	113.68	110.57	12.26
9	43	9,722,052	74,985	129.65	125.87	12.19
10	44	10,829,913	74,173	146.01	141.75	12.10
	etc.	etc.	etc.	etc.	etc.	etc.

⁵=(9)-(10)

⁶=(11)÷(12)

⁷=(12)÷1.03

Policy year.	Attained age.	(16) Amount at risk during year. ⁸	(17) Death rate, or probability of dying during years	(18) Cost of insurance. ⁹	(19) Charge for death claims at beginning of year ¹⁰ .
1	35	\$987.12	.008,916	\$8.83	\$8.57
2	36	973.87	.009,089	8.85	8.59
3	37	960.24	.009,234	8.87	8.61
4	38	946.23	.009,408	8.90	8.64
5	39	931.84	.009,586	8.93	8.67
6	40	917.06	.009,794	8.98	8.72
7	41	901.89	.010,008	9.03	8.76
8	42	886.32	.010,252	9.09	8.82
9	43	870.35	.010,517	9.15	8.89
10	44	853.99	.010,829	9.23	8.95
	etc.	etc.	etc.	etc.	etc.

⁸=\$1000---(13)

⁹=(16 x (17)

¹⁰=(18)÷1.03

SELECT AND ULTIMATE PLAN.

The following schedule shows for ten years the progress of a fund made up of the annual premium payments of 81,822 persons aged 35, each purchasing an ordinary whole life policy of insurance for amount \$1,000. The first annual premium is *\$26.15 and provides for a loading or expense charge, available at the beginning of the policy year, as follows; first year *\$15.81; every year thereafter \$5.07. The present value of all the expense charges provided for in the policy, calculated according to the American Experience select and ultimate table of mortality with 3% interest, is \$112.80, or \$1.83 more than the allowance under the proposed limitation as to expenses of insurance management. A comparison with the preceding schedules shows that in each case except the last, where the first premium is higher than subsequent premiums, the annual premium is the same, \$26.15, as in the present plan; and also that in each of the preceding plans the present value of the expense charges is about \$101. It thus appears that when the same uniform annual premium is employed, the select and ultimate plan provides for an expense allowance whose present value is in excess of that granted under the preceding plans by about \$12. This consideration makes clear the general truth that companies heretofore operating on the net level premium plan with uniform loading or the full or modified preliminary term plans on the American Experience table of mortality, by passing to the American Experience select and ultimate table of mortality with the same rate of interest and same annual premium, will not diminish but actually increase the present value of their loadings for expenses of insurance management.

This schedule is merely a straightforward book-keeping account following the assumptions made; it differs from the preceding schedules chiefly owing to the assumptions made in column (17), "death rate or probability of dying during year," for the first five years. The expected death rates employed are assumed to be the following percentages of those assumed in the preceding schedules; first year, 50%; second year, 65% ;

* The annual premium actually employed in the calculation of the schedule to six places of decimals is \$26.151236, and is based on the American Experience select and ultimate table of mortality with 3 per cent interest. The expense charge for the first year to four places of decimals is \$15.8137; it is made up of the uniform loading \$5.07 and the so-called savings from mortality for the first five years, \$10.7437.

third year, 75%; fourth year, 85%; fifth year, 95%; thereafter, 100%.

For example, 81,822 persons aged 35 pay an annual premium of \$26.15, amounting to \$2,139,746. On account of each policy \$15.81 is apportioned for expenses of insurance management, making a total expense provision for the year of \$1,293,908. This leaves a fund of \$845,838 which invested at 3% amounts at the end of one year to \$871,213. Instead of 732 deaths as shown by the American Experience table of mortality, 50% of this, or 366 deaths are assumed to occur during the year, making total death claims of \$366,000. After the payment of these claims there remains a fund of \$505,213 belonging to the 81,456 survivors and hence the reserve on each policy at the end of the policy year is \$6.20. The reserve of each survivor who continues his insurance by paying the second premium is carried forward and added to the total premium receipts less total expenses of the second year, and so the process continues from year to year. The accumulated reserve on each policy after five years is \$68.16, the same as that shown in the first schedule, and the reserves continue to agree thereafter since the premiums and expense charges are alike and the assumed death rate by the American Experience select and ultimate table of mortality coincides with that by the American Experience table of mortality after the fifth year.

It is evident that during the first five years the former table of mortality does not provide the same margin of safety, so far as mortality is concerned, as the latter; its employment is not justified unless the applicants for insurance are subjected to and pass a most careful medical examination.

SUMMARY OF FIFTH SCHEDULE.

Select and Ultimate Plan.

American Experience, Select and Ultimate, Table of Mortality. Interest Rate 3 Per Cent.

Ordinary Whole Life Policy. Amount, \$1,000. Age, 35. Annual Premium, \$26.15.

Policy year.	Attained age.	Expense charge.	Mortality charge.	Addition to deposit at beginning of year.	Deposit.
1	35	\$15.81	\$4.32	\$6.02	\$6.02
2	36	5.07	5.61	15.47	21.67
3	37	5.07	6.47	14.61	36.93
4	38	5.07	7.35	13.73	51.77
5	39	5.07	8.24	12.84	65.17
6	40	5.07	8.72	12.56	80.52
7	41	5.07	8.76	12.32	95.26
8	42	5.07	8.82	12.26	110.37
9	43	5.07	8.89	12.19	125.87
10	44	5.07	8.98	12.10	141.75
	etc.	etc.	etc.	etc.	etc.

FIFTH SCHEDULE.

Select and Ultimate Plan.

(1) Policy year.	(2) Attained age.	(3) Number of members at beginning of year.	(4) Reserve fund of preceding year brought forward.	(5) Premium receipts at beginning of year. ⁵	(6) Expense charge on each policy.
1	35	81,822.	\$0,000,000	\$2,139,746	\$15.81
2	36	81,456.	505,213	2,130,175	5.07
3	37	80,974.788	1,807,866	2,117,591	5.07
4	38	80,413.982	3,059,556	2,102,925	5.07
5	39	79,770.910	4,254,354	2,086,108	5.07
6	40	79,044.432	5,387,627	2,067,110	5.07
7	41	78,270.271	6,491,439	2,046,864	5.07
8	42	77,486.942	7,602,388	2,026,379	5.07
9	43	76,692.546	8,718,590	2,005,605	5.07
10	44	75,885.971	9,838,849	1,984,512	5.07
	etc.	etc.	etc.	etc.	etc.

$$^6 = (3) \times \$26.151236$$

Policy year.	Attained age.	(7) Expense provision for the year. ⁷	(8) Fund at beginning of year less expenses. ⁸	(9) Fund in (8) improved at 3 per cent. interest. ⁹	(10) Expected death claims during year by Am. Ex. select and ultimate table.
1	35	\$1,293,908	\$845,838	\$571,213	\$266,000
2	36	412,982	2,222,406	2,280,078	481,212
3	37	410,542	3,514,915	3,630,362	560,806
4	38	407,699	4,754,782	4,897,425	643,072
5	39	404,439	5,936,923	6,114,104	726,478
6	40	400,755	7,053,982	7,265,600	774,161
7	41	396,830	8,141,473	8,385,717	783,329
8	42	392,859	9,235,908	9,512,986	794,396
9	43	388,831	10,335,361	10,645,425	806,575
10	44	384,742	11,438,619	11,781,778	821,769
	etc.	etc.	etc.	etc.	etc.

$$^7 = (3) \times (6)$$

$$^8 = (4) + (5) - (7)$$

$$^9 = (8) \times 1.03$$

FIFTH SCHEDULE (continued).

Select and Ultimate Plan.

Policy year.	Attained age.	(11) Fund at end of year after payment of death claims. ¹¹	(12) Number of survivors at end of year.	(13) Terminal reserve on policy of each survivor. ¹³	(14) Deposit or discounted terminal reserve. ¹⁴	(15) Addition to deposit at beginning of year.
1	35	\$595,213	\$1,456.	\$6.20	\$6.02	\$6.02
2	36	1,807,863	80,974.788	22.32	21.67	15.47
3	37	3,059,556	80,413.982	38.04	36.93	14.61
4	38	4,354,373	79,770.910	53.33	51.77	13.73
5	39	5,387,626	79,044.432	68.16	66.17	12.84
6	40	6,491,439	78,270.271	82.94	80.52	12.36
7	41	7,608,888	77,489.942	98.11	95.26	12.02
8	42	8,718,599	76,612.545	113.68	110.37	12.23
9	43	9,838,850	75,885.971	129.65	125.87	12.19
10	44	10,990,039	75,064.202	146.61	141.75	12.16
		etc.	etc.	etc.	etc.	etc.

$^{11}=(9)-(10)$

$^{13}=(11) \div (12)$

$^{14}=(12) \div 1.03$

Policy year.	Attained age.	(16) Amount at risk during year. ¹⁶	(17) Death rate or probability of dying during year.	(18) Cost of insurance. ¹⁷	(19) Charge for death claims at beginning of year. ¹⁸
1	35	\$993.50	.004,473	\$4.45	\$1.32
2	36	977.68	.005,398	5.78	5.61
3	37	961.96	.006,926	6.66	6.47
4	38	946.67	.007,997	7.57	7.35
5	39	931.84	.009,107	8.49	8.24
6	40	917.06	.009,794	8.98	8.72
7	41	901.89	.010,608	9.63	8.76
8	42	886.32	.010,252	9.69	8.82
9	43	870.35	.010,517	9.15	8.80
10	44	853.99	.010,829	9.25	8.98
	etc.	etc.	etc.	etc.	etc.

$^{16}=\$1,000-(13)$

$^{17}=(16) \times (17)$

$^{18}=(18) \div 1.03$

MODIFIED PRELIMINARY TERM.

The sixth schedule shows for its entire possible history the progress of a fund made up of the annual premium payments of 81,822 persons aged 35, each purchasing a ten year endowment policy for amount \$1,000. The annual premium is *\$101.73 and provides for a loading or expense charge, available at the beginning of the policy year, as follows: first year, \$32.51; every year thereafter, \$9.73. The present value of all the expense charges provided for in the policy, calculated according to the American Experience table of mortality with 3% interest, is \$104.94, or \$0.03 less than the allowance under the proposed limitation as to expenses of insurance management. The details of this plan, which provides for an expense provision or loading equal to the allowance under a full preliminary term twenty payment life policy, have been fully explained in the body of the report (see page 149).

The summary precedes the schedule.

SUMMARY OF SIXTH SCHEDULE.

PRELIMINARY TERM MODIFIED ON 20 PAYMENT LIFE BASIS.

American Experience Table of Mortality. Interest Rate 3 Per Cent.

Ten Year Endowment Policy. Amount, \$1,000. Age, 35. Annual Premium, \$101.73.

Policy Year.	Attained age.	Expense charge.	Mortality charge.	Addition to deposit at beginning of year.	Deposit.
1	35	\$32.51	\$8.14	\$61.08	\$61.08
2	36	9.73	7.48	84.52	147.43
3	37	9.73	6.78	85.22	237.07
4	38	9.73	6.03	85.97	330.15
5	39	9.73	5.22	86.78	426.84
6	40	9.73	4.35	87.65	527.30
7	41	9.73	3.39	88.61	634.72
8	42	9.73	2.35	89.61	740.31
9	43	9.73	1.24	90.76	853.28
10	44	9.73	0.00	92.00	970.87

* The annual premium actually employed in the calculation of the schedule to four places of decimals is \$101.7281, and is based on the American Experience table of mortality with 3 per cent interest.

SIXTH SCHEDULE.

(1) Policy Year.	(2) Attained Age.	(3) Numbers of members at beginning of year.	(4) Reserve fund of preceding year brought forward.	(5) Premium receipts at beginning of year. ⁵	(6) Expense charged on each policy.
1	35	\$1,822	\$0,000,000	\$8,323,597	\$32.51
2	36	81,090	\$5,101,470	8,249,132	9.73
3	37	80,353	12,201,444	8,174,158	9.73
4	38	79,611	19,439,580	8,098,676	9.73
5	39	78,862	26,817,550	8,022,481	9.73
6	40	78,106	34,338,886	7,945,575	9.73
7	41	77,341	42,005,224	7,867,753	9.73
8	42	76,567	49,820,063	7,789,015	9.73
9	43	75,782	57,785,003	7,709,159	9.73
10	44	74,985	65,902,508	7,628,082	9.73

$$^5=(3) \times \$101\ 7281$$

Policy Year.	Attained age.	(7) Expense provision for the year. ⁷	(8) Fund at beginning of year less expense. ⁸	(9) Fund in (8) improved at 3 per cent interest. ⁹	(10) Expected death claims during year.
1	35	\$2,630,932	\$5,663,564	\$5,822,470	\$732,000
2	36	789,006	12,561,596	12,938,444	737,000
3	37	781,835	19,593,767	20,181,580	742,000
4	38	774,615	26,763,641	27,563,550	749,000
5	39	767,327	34,072,704	35,694,886	756,000
6	40	759,971	41,521,490	42,770,224	765,000
7	41	752,528	49,120,449	50,591,063	774,000
8	42	744,967	56,861,081	58,570,003	785,000
9	43	737,859	64,756,803	66,699,508	797,000
10	44	729,604	72,800,986	74,985,015	812,000

$$^7=(3) \times (6)$$

$$^8(4)+(5)-(7)$$

$$^9=(8) \times 1.03$$

SIXTH SCHEDULE (continued).

Policy Year.	Attained age.	(11) Fund at end of year after payment of death claims. ¹¹	(12) Number of survivors at end of year.	(13) Terminal reserve on policy of each survivor. ¹³	(14) Deposit or discounted terminal reserve. ¹⁴	(15) Addition to deposit at beginning of year.
1	35	\$5,101,470	81,090	\$62.91	\$61.08	\$61.08
2	36	12,201,444	80,353	151.55	147.43	84.52
3	37	19,439,580	79,611	244.18	237.07	85.22
4	38	26,817,550	78,862	340.06	330.15	85.97
5	39	34,338,886	78,106	439.65	426.84	86.78
6	40	42,005,224	77,341	543.11	527.30	87.65
7	41	49,820,063	76,567	650.67	631.72	88.61
8	42	57,785,003	75,782	762.52	740.31	89.64
9	43	65,902,508	74,985	878.87	853.28	90.76
10	44	74,173,015	74,173	1,000.00	970.87	92.00

$^{11}=(9)-(10)$

$^{13}=(11) \div (12)$

$^{14}=(12) \div 1.03$

Policy year.	Attained age.	(16) Amount at risk during year. ¹⁶	(17) Death rate or probability of dying during year.	(18) Cost of insurance. ¹⁸	(19) Charge for death claims at beginning of year. ¹⁹
1	35	\$937.09	.008916	\$8.38	\$8.14
2	36	848.15	.009089	7.74	7.48
3	37	755.82	.009234	6.98	6.78
4	38	659.94	.009408	6.21	6.03
5	39	560.35	.009586	5.37	5.22
6	40	456.89	.009704	4.48	4.55
7	41	349.23	.010008	3.50	3.39
8	42	237.48	.010252	2.44	2.36
9	43	121.13	.010517	1.27	1.24
10	44	000.00	.010829	0.00	0.00

$^{16}=\$1,000-(13)$

$^{18}=(16) \cdot (17)$

$^{19}=(18) \div 1.03$

TEN YEAR ENDOWMENT POLICY WITHIN PROPOSED PLAN.

The following schedule shows for its entire possible history the progress of a fund made up of the annual premium payments of 81,822 persons aged 35, each purchasing a ten year endowment policy for amount \$1,000. The annual premium is \$98.11 and provides for a loading or expense charge as indicated in the third column of the summary. The present value of all the expense charges provided for in the policy, calculated according to the American Experience table of mortality with $3\frac{1}{2}\%$ interest, is \$91.78, or \$13.19 less than the allowance under the proposed limitation as to expenses of insurance management. The details of this plan have been fully explained in the body of the report.

The summary precedes the schedule.

SUMMARY OF SEVENTH SCHEDULE.

American Experience Table of Mortality. Interest Rate $3\frac{1}{2}$ Per Cent. Ten Year Endowment Policy. Amount \$1,000. Age 35. Annual Premium, \$98.11.

Policy year.	Attained age.	Expense charge.	Mortality charge	Addition to Deposit at beginning of year.	Deposit.
1	35	\$28.00	\$8.09	\$62.02	\$62.02
2	36	14.00	7.50	76.61	140.80
3	37	7.00	6.80	84.32	230.04
4	38	11.00	6.12	77.99	316.08
5	39	7.00	5.30	85.81	412.95
6	40	7.00	4.43	83.68	514.08
7	41	7.00	3.47	87.64	619.71
8	42	7.00	2.42	88.69	730.09
9	43	7.00	1.27	89.84	845.48
10	44	7.00	0.00	91.11	966.15

* The annual premium actually employed in the calculation of the schedule to five places of decimals is \$98.10837, and is based on the American Experience table of mortality with $3\frac{1}{2}$ per cent interest.

SEVENTH SCHEDULE.

Showing the progress of a fund made up of the contributions of \$1,822 persons aged 35, each purchasing a ten year endowment insurance for amount \$1,000. The annual premium,* \$98.11, provides for an expense charge available at the beginning of the policy year, as follows: 1st year, \$28; 2d year, \$11; 3d year, \$7; 4th year, \$14; 5, 6, 7, 8, 9, 10th years, each \$7. American experience mortality table with 3½ per cent interest.

(1)	(2)	(2)	(4)	(5)
Policy year.	Attained age.	Number of members at beginning of year.	Reserve fund of preceding year brought forward.	Premium receipts at beginning of year. ¹
1	35	\$1,822	\$0,000,000	\$8,027,423
2	36	\$1,090	5,205,181	7,955,698
3	37	\$0,353	11,709,423	7,883,392
4	38	79,611	18,954,313	7,810,505
5	39	78,862	25,799,023	7,737,022
6	40	78,106	33,382,451	7,662,832
7	41	77,341	41,151,011	7,587,739
8	42	76,567	49,110,333	7,511,864
9	43	75,782	57,264,246	7,434,848
10	44	74,985	65,617,522	7,356,656

$$^1 = (3) \times \$98,10837$$

		(6)	(7)	(8)
Policy year.	Attained age.	Expense charge on each policy.	Expense provision for the year. ²	Fund at beginning of year less expenses. ³
1	35	\$28.00	\$2,291,016	\$5,736,407
2	36	14.00	1,135,269	12,446,423
3	37	7.00	562,471	19,030,254
4	38	14.00	1,114,551	25,659,264
5	39	7.00	552,034	32,981,011
6	40	7.00	546,742	40,498,561
7	41	7.00	541,387	48,197,123
8	42	7.00	535,969	56,086,228
9	43	7.00	530,474	64,168,620
10	44	7.00	524,895	72,449,283

$$^2 = (3) \times (6)$$

$$^3 = (4) + (5) - (7)$$

		(9)	(10)	(11)
Policy year.	Attained Age.	Fund in (8) improved at 3½ Per cent. interest. ⁴	Expected death claims during year.	Fund at end of year after payment of death claims
1	35	\$5,937,181	\$732,000	\$5,205,181
2	36	12,446,423	737,000	11,709,423
3	37	19,096,313	712,000	18,954,313
4	38	26,548,023	749,000	25,799,023
5	39	34,138,451	766,000	33,382,451
6	40	41,916,011	765,000	41,151,011
7	41	49,884,333	774,000	49,110,333
8	42	58,049,216	785,000	57,264,216
9	43	66,414,522	797,000	65,617,522
10	44	74,985,098	812,000	74,173,098

$$^4 = (8) \times 1.035.$$

$$^5 (9) - (10)$$

SEVENTH SCHEDULE (continued).

Policy year.	Attained age.	(12) Number of survivors at end of year.	(13) Terminal reserve on policy of each survivor. ¹	(14) Deposit or discounted terminal reserve. ²
1	35	81,000	\$64.19	\$62.02
2	36	80,353	145.72	110.80
3	37	79,611	238.00	220.04
4	38	78,862	327.14	316.08
5	39	78,106	427.40	412.95
6	40	77,341	532.07	514.08
7	41	76,567	641.40	619.71
8	42	75,782	755.64	730.09
9	43	74,985	875.97	845.48
10	44	74,173	1,000.00	966.18

¹ = (11) ÷ (12)

² = (12) ÷ 1.035.

Policy year.	Attained age.	(15) Addition to deposit at beginning of year.	(16) Amount at risk during year. ³	(17) Death rate or probability of dying during year.
1	35	\$62.02	\$935.81	.008946
2	36	76.61	854.28	.009089
3	37	84.32	761.91	.009231
4	38	77.99	672.85	.009408
5	39	85.81	572.60	.009586
6	40	86.68	467.93	.009791
7	41	87.61	358.60	.010008
8	42	88.69	241.36	.010252
9	43	89.84	124.92	.010517
10	44	91.11	000.00	.010829

³ = \$1000 - (13)

Policy year.	Attained age.	(18) Cost of insurance ⁴	(19) Charge for death claims beginning of year ⁵
1	35	\$8.37	\$8.09
2	36	7.76	7.50
3	37	7.04	6.80
4	38	6.33	6.12
5	39	5.49	5.30
6	40	4.58	4.43
7	41	3.59	3.47
8	42	2.51	2.42
9	43	1.31	1.27
10	44	0.00	0.00

⁴ = (16) x (17)

⁵ = (18) ÷ 1.035.

DIVIDEND AND NET ANNUAL COLLECTION SCHEDULES.

The following tables show for twelve companies doing business in this state and for various plans and ages the difference between the annual premium paid at the beginning of the policy year and the dividend returned to the insured at the end of the policy year in 1905. This difference may be taken as a measure of the net payment made by the insured on account of the policy for the year in question. The annual dividends are those paid in 1905 on policies which have been in force 5, 10, 15, 20, 25, and 30 years, respectively, and which accordingly were issued in 1900, 1895, 1890, 1885, 1880, and 1875, respectively. The figures given in the tables were furnished by the companies on forms prepared by the committee; they show results on the ordinary whole life, 20 payment life, and 20 year endowment plans, and at ages of issue 25, 35, 45, and 55.

A study of these tables reveals a wide range in the net annual collection of different companies for practically the same policy; the difference is especially noticeable on the older policies issued in 1875 and 1880. The excess interest earnings of the several companies on the large reserves of these old policies is reflected in the dividend returns and net annual collection thereon.

The tables show the annual dividend on paid up policies in the case of the 20 payment life policies issued in 1875 and 1880.

ANNUAL DIVIDENDS FOR 1905.

Table showing the excess of annual premium paid at the *beginning* of policy year over dividend paid at the *end* of same policy year for the year 1905 on policies issued in 1900, 1895, 1890, 1885, 1880, and 1875. Amount of policy \$1,000.

ORDINARY WHOLE LIFE POLICY.

Name of Company.	Premium less dividend on policy issued at age of 25 in					
	1900	1895	1890	1885	1880	1875
Union Central	\$16.49	\$14.92	\$14.27	\$13.48	\$12.27	\$10.76
Northwestern Mutual	16.17	14.82	14.47	14.03	13.33	12.48
Mutual Benefit	17.39	15.66	15.23	14.70	13.81	12.81
Connecticut Mutual	16.78	16.13	15.39	14.51	13.93	13.56
Massachusetts Mutual	16.40	15.93	15.47	14.89	14.09	13.14
New York Life	18.98	16.73	15.33	14.43	13.53	12.63
Penn Mutual	16.27	15.97	15.64	15.23	14.56	13.90
Aetna	17.09	16.63	16.09	15.45	14.73	13.95
Equitable of N. Y.	19.41	17.21	16.48	15.66	14.69	14.29
Mutual Life	19.14	17.81	17.04	16.25	15.46	14.65
Home Life	17.20	16.97	16.70	16.38	16.01	15.62
Germania Life	19.02	18.65	18.21	17.69	17.10	16.47

Issued at Age 35.

Union Central	\$21.87	\$19.71	\$18.37	\$16.73	\$14.82	\$12.56
Northwestern Mutual	21.38	20.16	19.40	18.46	17.37	16.07
Mutual Benefit	22.79	20.75	20.04	19.15	17.86	16.14
Connecticut Mutual	22.00	20.99	19.88	18.63	18.54	17.92
Massachusetts Mutual	22.31	21.56	20.69	19.65	18.48	17.13
New York Life	21.83	22.12	20.35	19.16	17.96	16.77
Penn Mutual	22.11	21.63	20.97	20.17	19.18	18.20
Aetna	22.62	21.93	21.12	20.17	19.36	18.44
Equitable of N. Y.	25.34	22.77	21.76	20.61	19.31	18.83
Mutual Life	25.02	23.55	22.52	21.49	20.44	19.39
Home Life	23.16	22.81	22.41	21.98	21.53	21.07
Germania Life	25.13	24.56	23.93	23.29	22.55	21.80

ORDINARY WHOLE LIFE POLICY.

Issued at Age 45.

Name of Company.	Premium less dividend on policy issued at age of 45 in					
	1900	1895	1890	1885	1880	1875
Union Central	\$20.06	\$27.15	\$24.94	\$22.34	\$19.44	\$16.44
Northwestern Mutual	20.18	28.01	27.65	26.15	24.49	22.89
Mutual Benefit	32.05	29.74	28.55	27.23	25.42	23.65
Connecticut Mutual	30.97	29.40	27.83	26.19	26.58	25.78
Massachusetts Mutual	32.40	31.00	29.65	28.10	26.45	24.79
New York Life	34.94	31.92	29.32	27.00	25.88	24.16
Penn Mutual	31.13	31.17	30.12	28.88	27.44	26.17
Aetna	31.28	31.29	30.24	29.18	28.15	27.18
Equitable of N. Y.	35.63	32.74	31.29	29.70	27.97	27.46
Mutual Life	35.35	32.64	32.46	30.97	29.48	28.00
Home Life	33.49	32.99	32.47	31.93	31.42	30.94
Germania Life	35.97	35.17	34.03	33.17	32.34	31.56

Issued at Age 55.

Union Central	\$46.28	\$40.07	\$36.44	\$32.74	\$29.14	\$26.00
Northwestern Mutual	45.79	44.34	42.25	40.16	38.12	36.17
Mutual Benefit	49.06	46.67	44.90	43.16	41.05	39.03
Connecticut Mutual	47.37	45.25	43.20	41.29	41.49	40.70
Massachusetts Mutual	50.09	47.91	45.85	43.79	41.84	40.21
New York Life	53.64	50.28	46.28	43.57	40.86	38.14
Penn Mutual	49.84	48.08	46.42	44.75	42.98	41.79
Aetna	49.82	48.50	47.22	46.02	44.95	44.00
Equitable of N. Y.	54.75	51.74	49.60	47.34	44.96	44.42
Mutual Life	54.76	53.53	51.23	48.94	46.66	44.39
Home Life	52.32	51.66	51.02	50.43	49.80	49.17
Germania Life	55.89	54.82	53.11	52.14	51.27	50.51

ANNUAL DIVIDENDS FOR 1905.

Table showing the excess of annual premium paid at the *beginning* of policy year over dividend paid at the *end* of same policy year for the year 1905 on policies issued in 1900, 1895, 1890, 1885, and the annual dividend on paid up policies issued in 1880 and 1875. Amount of policy \$1,000.

TWENTY PAYMENT LIFE POLICY.

Issued at Age 25.

Name of Company.	Premium Less Dividend on Policy Issued at Age 25 in				Dividend on Policy Issued in	
	1900.	1895.	1890.	1885.	1880.	1875.
Union Central	\$23.15	\$21.50	\$20.52	\$19.41	\$6.40	\$7.38
Northwestern Mutual	25.66	21.77	21.28	20.72	3.33	3.81
Mutual Benefit	26.65	22.28	21.46	20.47	3.89	4.42
Connecticut Mutual	26.12	24.61	23.02	21.12	1.96	2.26
Massachusetts Mutual	23.81	23.02	22.24	21.31	2.35	2.64
New York Life	29.32	24.33	22.83	21.93	.....	.....
Penn Mutual	23.53	23.11	22.61	22.01	3.56	4.09
Aetna	23.64	22.74	21.64	20.27	2.52	2.95
Equitable of N. Y.	29.16	24.14	23.11	21.79	.....	.....
Mutual Life	27.35	24.77	23.79	22.77	.....	.....
Home Life	24.28	23.87	23.28	22.76	2.41	2.69
Germania Life	26.27	25.59	24.62	23.57	3.34	3.85

Issued at Age 35.

Union Central	\$28.62	\$26.51	\$25.03	\$23.39	\$8.52	\$9.89
Northwestern Mutual	30.78	27.35	26.56	25.76	4.35	4.97
Mutual Benefit	31.93	27.78	26.49	25.19	5.05	5.77
Connecticut Mutual	31.23	29.36	27.41	25.14	2.60	3.01
Massachusetts Mutual	29.92	28.87	27.75	26.52	2.94	3.24
New York Life	35.06	30.02	28.05	26.86	.....	.....
Penn Mutual	29.56	28.97	28.21	27.40	4.69	5.39
Aetna	29.36	28.20	26.80	25.12	3.40	3.86
Equitable of N. Y.	34.09	29.88	28.53	26.88	.....	.....
Mutual Life	33.30	30.75	29.50	28.21	.....	.....
Home Life	30.43	29.85	29.15	28.48	3.00	3.30
Germania Life	32.69	31.66	30.59	29.22	4.38	4.93

TWENTY PAYMENT LIFE POLICY.

Issued at Age 45.

Name of Company.	Premium Less Dividend on Policy Issued at Age 45 in				Dividend on Pol- icy Issued in	
	1900.	1895.	1890	1885	1880.	1875
Union Central	\$36.91	\$33.58	\$31.58	\$29.97	\$11.38	\$12.82
Northwestern Mutual	38.44	35.67	34.64	34.00	5.65	6.33
Mutual Benefit	40.09	36.03	34.58	33.08	6.55	7.30
Connecticut Mutual	39.02	36.71	34.40	31.83	3.46	3.92
Massachusetts Mutual	39.40	37.80	36.40	35.17	3.54	3.81
New York Life	43.91	39.02	36.38	34.66	.....	.....
Penn Mutual	38.95	37.96	36.99	36.25	6.16	6.93
Actua	38.47	37.04	35.37	33.35	4.30	4.71
Equitable of N. Y.	44.08	39.26	37.48	35.34	.....	.....
Mutual Life	42.78	40.46	38.78	37.06	.....	.....
Home Life	40.21	39.49	38.67	37.76	3.60	3.86
Germania Life	42.80	41.64	40.00	38.35	5.43	5.96

Issued at Age 55.

Union Central	\$49.93	\$45.04	\$42.41	\$42.18	\$43.44	.....
Northwestern Mutual	51.36	49.40	48.17	48.88	6.97	\$7.51
Mutual Benefit	54.42	51.12	49.38	48.26	7.97	8.59
Connecticut Mutual	52.67	50.07	47.52	44.97	4.36	4.73
Massachusetts Mutual	55.13	52.83	51.20	50.89	4.03	4.28
New York Life	59.61	55.28	51.19	48.48	.....	.....
Penn Mutual	54.60	52.98	51.82	52.01	7.67	8.29
Actua	54.21	52.54	50.67	48.32	5.08	5.41
Mutual Life	59.81	58.00	55.64	53.14	.....	.....
Equitable of N. Y.	60.37	56.26	53.84	51.00	.....	.....
Home Life	57.09	56.26	55.32	54.11	4.11	4.32
Germania Life	60.74	59.41	.....	.....	.....	.....

ANNUAL DIVIDENDS FOR 1905.

Table showing the excess of annual premium paid at the *beginning* of policy year over dividend paid at the *end* of same policy year for the year 1905 on policies issued in 1900, 1895, 1890, and 1885. Amount of policy \$1,000.

TWENTY YEAR ENDOWMENT POLICY.

Name of Company.	Premium Less Dividend on Policy Issued at Age of 25 m			
	1900.	1895.	1890.	1885.
Union Central	\$40.73	\$38.72	\$36.94	\$34.97
Northwestern Mutual	42.82	39.93	39.09	38.20
Mutual Benefit	43.35	40.10	38.24	35.95
Connecticut Mutual	41.31	38.47	35.34	31.60
Massachusetts Mutual	43.10	41.53	39.94	38.07
New York Life	44.63	39.75	36.83	34.67
Penn Mutual	42.40	41.68	40.72	39.62
Aetna	41.04	39.00	36.42	33.14
Equitable of N. Y.	46.80	42.88	40.96	38.40
Mutual Life	45.72	43.63	42.07	40.44
Home Life	43.04	42.02	40.73	39.30
Germania Life	44.23	42.56	39.49	36.81

Issued at Age 35.

Union Central	\$41.83	\$39.77	\$37.93	\$36.36
Northwestern Mutual	43.76	41.27	40.42	39.90
Mutual Benefit	44.58	41.43	39.59	37.42
Connecticut Mutual	42.23	39.42	36.32	32.62
Massachusetts Mutual	44.63	43.06	41.47	39.88
New York Life	46.35	41.55	38.46	36.20
Penn Mutual	44.46	43.18	42.20	41.37
Aetna	42.61	40.56	38.00	34.72
Equitable of N. Y.	48.32	44.39	42.35	39.68
Mutual Life	47.36	45.33	43.63	41.86
Home Life	44.70	43.67	42.39	41.02
Germania Life	46.00	41.35	41.31	38.65

TWENTY YEAR ENDOWMENT POLICY.

Issued at Age 45.

Name of Company.	Premium Less Dividend on Policy Issued at Age of 45 in			
	1900.	1895.	1890.	1885.
Union Central	\$44.86	\$42.26	\$40.51	\$40.20
Northwestern Mutual	46.56	44.68	43.97	44.47
Mutual Benefit	47.98	44.94	43.14	41.38
Connecticut Mutual	45.07	42.30	39.25	35.75
Massachusetts Mutual	48.76	46.97	45.52	44.71
New York Life	50.63	46.04	42.52	40.03
Penn Mutual	49.53	47.07	46.21	46.11
Aetna	46.85	44.83	42.34	39.04
Equitable of N. Y.	52.37	48.50	46.24	43.34
Mutual Life	51.63	49.79	47.80	45.74
Home Life	49.27	48.26	47.01	45.56
Germania Life	50.69	49.05	45.65	42.99

Issued at Age 55.

Union Central	\$52.73	\$49.25	\$47.50	\$50.25
Northwestern Mutual	54.92	53.75	53.22	56.33
Mutual Benefit	57.86	55.16	53.46	52.89
Connecticut Mutual	53.79	51.20	48.33	45.37
Massachusetts Mutual	59.44	57.31	56.04	57.24
New York Life	62.28	58.04	53.49	50.37
Penn Mutual	61.76	57.34	56.63	58.40
Aetna	58.02	56.05	53.68	50.34
Equitable of N. Y.	63.97	60.33	57.63	54.29
Mutual Life	63.68	62.20	59.60	56.91
Home Life				
Germania Life				

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